FINANCIAL TIMES

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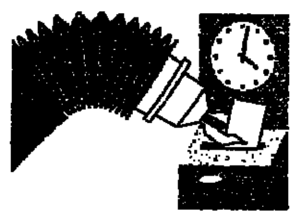

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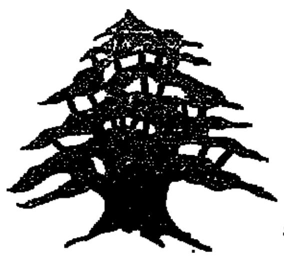

Today's surveys
Lebanon
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Berlusconi faces TV blackout over poll defiance

The three television channels of Silvio Berlusconi (left), media magnate turned politician, risk a black-out today if they persist in their defiance of Italy's media watch-dog commission. The networks are refusing to carry 13 publicity slots ordered by the commission to balance the coverage in the run-up to Sunday's three key referendums on the future of commercial television. Mr Berlusconi risks losing two of his three channels if the vote goes against him. Page 16

Drive to end EU barriers: Mario Monti, European Commissioner responsible for the internal market, will today urge member states to remove barriers in public procurement and insurance in the European Union. Page 16

Ricoh shifts work to Taiwan: Ricoh, Japanese maker of imaging equipment, is shifting design work for advanced cameras to Taiwan in a move that highlights the impact of the strong yen on Japanese manufacturers. Page 16

Boeing predicts low orders: Orders for aircraft will remain subdued well into the next century, a market forecast by Boeing of the US says. Page 8; A revolution rolls out, Page 15

Brittan anxious over US-Japan trade: European trade commissioner Sir Leon Brittan warned the US and Japan not to conclude trade deals which would leave Europe out in the cold. Page 8

Ladbroke sells US property for $163m: Hotels and betting group Ladbroke reduced its property portfolio by a fifth with the sale of the Bay Colony Corporate Center in Boston, Massachusetts for $163m. Page 22

India's top bank launches share offer: India's leading financial institution, the Industrial Development Bank of India, launched the country's biggest public share offering with an issue designed to raise Rs23.7bn ($754m). Page 17

BAA expects one-off cut in reserves: Privatised UK airports group BAA said a new accounting practice for deferred corporation tax could result in a one-off reduction in its reserves of up to £600m ($942m). The group recorded a 14 per cent increase in annual pre-tax profits to £386m. Page 17; Lex, Page 16

Andersen takes second place in league: Professional services group Andersen rose from third to second place in the UK's accountancy table when it announced fee results for 1994-95 of £539m ($846m). Page 22

New chief for Kmart: Troubled US retailing group Kmart appointed Floyd Hall as chief executive. Mr Hall, 57, once worked for Anglo-French financier Sir James Goldsmith. Page 17

Australia's foreign debt rises: Australia's net foreign debt increased by A$3.7bn ($2.7bn) to A$166.9bn in the March quarter, a reversal of a trend in previous quarters, when it appeared to be stabilising. Page 8

Nigeria charges 23 with plotting coup: Five civilians and 18 members of the armed forces went on trial in Lagos on charges of plotting to overthrow Nigeria's military government. They could face execution if found guilty.

Likud party faces split: Israel's rightwing opposition Likud party went ahead with a controversial convention on electoral rules despite threats from a senior Likud leader that it would provoke a damaging split. Page 4

ILO faces budget crisis: The International Labour Organisation begins its annual conference today under the shadow of a budget crisis precipitated by the slump in the value of the dollar and threats by the US Congress to cut contributions to the United Nations body. Page 4

New 10,000-metres record: Ethiopia's Haile Gebreselassie set a world record for the 10,000-metres with a time of 26min 43.53sec, beating the previous best by nearly nine seconds at the Adriaan Paulen memorial meeting in the Netherlands.

Correction: We reported in this column yesterday that an army officer was sentenced to death by a court in Tunis for the killing of Algerian president Mohamed Boudiaf. In fact the court sat in Algiers. We apologise for our error.

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	4,454.42	(+10.03)
NASDAQ Composite	882.51	(+8.64)
Europe and Far East		
CAC40	closed	
DAX	closed	
FT-SE 100	3,376.6	(+31.6)
Nikkei	15,887.3	(+48.19)

US LUNCHTIME RATES

Federal Funds	5¹⁵⁄₁₆%
3-mth Treas Bills: Yld	5.604%
Long Bond	114⁵⁄₈
Yield	6.581%

OTHER RATES

UK: 3-mo Interbank	6½%	(6⅝%)
UK: 10 yr Gilt	105⅞	(same)
France: 10 yr OAT	closed	
Germany: 10 yr Bund	closed	
Japan: 10 yr JGB	113.065	(113.02)

NORTH SEA OIL (Argus)

Brent 15-day (July)	$18.65	(17.85)

GOLD

New York: Comex		
(Aug)	$387.7	(387.0)
London:		
close	$383.35	(384.15)

DOLLAR

New York lunchtime		
£	1.5965	
DM	1.40575	
FFr	4.9165	
SFr	1.156	
Y	84.665	
London:		
£	1.5948	(1.591)
DM	1.4074	(1.406)
FFr	4.9265	(4.9473)
SFr	1.1575	(1.1565)
Y	84.645	(84.13)

STERLING

DM	2.2442	(2.2369)
Tokyo close:	Y 84.37	

Austria	Sch35	Greece	Dr400	Malta	Lm0.60	Qatar	QR13.00		
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11		
Belgium	BFr76	Hungary	Ft185	Neth	Fl 4.25	Singapore	S$4.30		
Bulgaria	Lev110.00	Iceland	IKr220	Nigeria	Naira90	Slovak Rp	KSL60		
Cyprus	C£1.10	India	Rs75	Norway	NKr18.00	S. Africa	R12.00		
Czech Rp	CZK55	Israel	Shk7.90	Oman	OR1.50	Spain	Pta225		
Denmark	DKr17	Italy	L3000	Pakistan	Rs40	Sweden	SKr17		
Egypt	E£5.00	Japan	Y500	Philippines	Pso50	Switz	SFr3.60		
Estonia	EKr20	Jordan	JD1.50	Poland	Zl 42,000	Syria	S£50.00		
Finland	FM15	Kuwait	Fils625	Portugal (m'land)		Tunisia	Din1.500		
France	FFr10.50	Lebanon	US$1.50		Es230	Turkey	L55,000		
Germany	DM3.80	Lux	LFr70			UAE	Dh12.00		

Bid aimed at countering Microsoft's dominance of software market

IBM offers $3.3bn for Lotus

By Louise Kehoe in San Francisco

International Business Machines yesterday launched an unsolicited $3.3bn cash takeover bid for Lotus Development, a leading personal computer software company. The move is intended to counter the growing dominance of Microsoft, the world's largest software company.

IBM's primary interest in acquiring Lotus appears to be Lotus Notes, a program that enables teams of workers to collaborate, communicating via electronic mail and sharing documents over computer networks.

Mr Lou Gerstner, IBM's chairman and chief executive, said: "Our goal is to accelerate the creation of a truly open, scalable [adaptable to systems of any size] collaborative computing environment so people can work and communicate across enterprises and across corporate and national borders."

IBM also, however, needs to establish a base of software applications for its OS/2 Warp personal computer operating system. It has been struggling to gain a greater foothold in the operating system market, but has so far failed to dent the dominance of Microsoft's Windows.

IBM said it had been in talks with Lotus "for over five months" about a possible merger. "We wanted to have a negotiated transaction," Mr Gerstner said, but Lotus was unwilling to proceed. "We hope to have such a discussion with Lotus as soon as possible."

Lotus expressed surprise at the IBM announcement, but did not rule out an agreement to support the offer. IBM said it would offer $60 per Lotus share, a premium of 85 per cent over Friday's closing price of $32¼. The shares soared on news of the bid to trade at $60⅞ in mid-session.

The bid comes as the PC industry is poised for the introduction, in August, of Windows 95, a new version of Microsoft Windows that is expected to match the features and performance of OS/2. IBM is believed to have invested over $2bn in the development and promotion of OS/2.

Mr Gerstner said, however, that IBM wanted Lotus's software to run on all types of computers and that the company's strategy for OS/2 was unrelated to the proposed acquisition.

Lotus said: "The sudden IBM announcement is particularly surprising in light of discussions and negotiations on contracts and joint development that have been under discussion between the two companies for several months." It said it would confer with legal and financial advisers "and then take any and all appropriate action to preserve and promote the vital best interests of this company".

Mr Gerstner said IBM did not expect any anti-trust issues arising from the proposed acquisition. The bid appears unlikely to face anti-trust objections because neither IBM nor Lotus holds a dominant share of any specific segment of the PC software market. US Justice Department objections on these grounds led Microsoft to abandon its $2bn plan to acquire Intuit last month. A potential barrier to the deal is Lotus's "poison pill" takeover defence. IBM said it had started a legal action to prevent such an anti-takeover strategy.

IBM said it would pay for the acquisition from its $10bn cash holdings. It plans to take a "significant" one-time, non-cash charge against its earnings when the deal closes. The charge would have a significant effect on net earnings for the year.

Industry analysts said it would be critical for IBM to marshal the support of Lotus employees if the takeover was to succeed. IBM said it intended to keep Lotus intact and that the company would continue to be managed from Cambridge, Massachusetts.

"Lotus would stay a separate company and we expect and hope that it would be run by Lotus's current management team," Mr Gerstner said.

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The risks of adopting the Lotus position ....Page 17

Britain and US closer to liberating air travel

By Michael Skapinker in London

The UK and the US said yesterday they had agreed moves towards liberating air services between the two countries.

The agreement falls short of the "open skies" deals the US is negotiating with other European countries but is seen by both sides as the best that can be achieved at present.

The two governments said they had arranged to begin negotiating a more extensive liberalisation of air services. Among the subjects expected to be discussed is greater access for US airlines to Heathrow airport, London.

Mr Brian Mawhinney, UK transport secretary, said: "The liberalisation process will not stop here. We have agreed to start work immediately on the next stage of negotiations with the aim of opening up further opportunities."

Yesterday's agreement gives UK airlines access to US government contracts, previously prohibited under the "fly America" policy. This required US public servants to use US airlines only.

The new agreement allows UK carriers to bid for US government contracts on five routes in co-operation with a US partner. The routes are between London and Washington, Baltimore, Philadelphia, San Francisco and Tampa.

The agreement also allows British Airways to increase its service from Heathrow to Philadelphia from once to twice daily. BA has already started operating a second Philadelphia flight, but yesterday's agreement lifts any doubt over its future.

BA has said the second Philadelphia service would provide better connections with flights offered by USAir, in which BA has a 24.6 per cent stake.

In return, United Airlines has won the right to operate a service from its home base of Chicago to Heathrow. United said yesterday it would need to fulfil a number of regulatory requirements before it could start the service but hoped to announce a date for

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US accused by China of 'constantly' causing trouble

By Tony Walker and Quentin Peel in Beijing

China yesterday accused Washington of "constantly" causing trouble in Sino-US relations, and warned of possible further retaliation over this week's visit to the US by Taiwan's president Lee Teng-hui.

Mr Qian Qichen, China's foreign minister, said China would "watch closely" Washington's handling of Mr Lee's unofficial visit. He indicated Chinese action would be governed by the reception accorded Mr Lee.

He did not rule out China penalising US business if the row worsened, but "it's hard to make a prediction now".

China had demanded that Washington rescind permission for Mr Lee to visit the US for a class reunion at Cornell University. He is due to arrive tomorrow, and the US has said there is no chance of the visa being withdrawn.

Beijing's reaction risks causing the most serious rupture in Sino-US relations since ties were normalised in 1979. China has already cancelled several high-level visits to the US and suspended Sino-US co-operation in halting the spread of missile technology.

Mr Qian, expressed exasperation over difficulties with the US. "In Sino-US relations, we call for a reduction of trouble, but what the US has done is constantly to increase trouble."

Sino-US relations have been bedevilled in the past year by disputes over intellectual property rights violations, human rights questions and Taiwan.

Mr Qian warned the White House not to back away from agreements recognising Taiwan as part of "one China. The question of Taiwan is the most important issue in Sino-US relations because all three Sino-US joint communiqués directly related to the question of Taiwan," he said.

Mr Qian also:

- Called for a delay in establishing a new supreme court in Hong Kong until China takes over in 1997, providing a possible solution to the most contentious issue still to be resolved with Britain over the transfer of power.
- Called on Europe to compete more aggressively with Japan and the US for a share of the Chinese market.
- Urged peaceful resolution of problems in former Yugoslavia.
- Defended China's agreement to supply nuclear power plants to Iran.

China urges delay in setting up HK Supreme Court, Page 6

Chancellor Helmut Kohl of Germany, left, King Hussein and Jordan, centre, and Israeli PM Yitzhak Rabin relax in a tent on the Israeli-Jordanian border before starting talks on economic projects and the Mideast peace process. Report, Page 4 Picture: EPA

Bosnian Serbs may be poised to free UN peacekeepers

By Our Foreign Staff

Mr Slobodan Milosevic, Serbian president, was reported last night to have secured the agreement of the Bosnian Serbs to release more than 250 UN peacekeepers whom they are holding hostage.

The promise was reported shortly after Mr Jovica Stanisic, Serbia's powerful security police chief, arrived in Pale, the Bosnian Serb stronghold, for talks on the hostage crisis. Mr Stanisic was also heavily involved in securing the release of an initial batch of hostages last Friday.

Witnesses saw four vehicles arriving in Pale similar to those used in the earlier release of 121 peacekeepers. Officials at Bosnian Serb headquarters told Associated Press that hostages were being gathered from their places of custody in preparation for departure.

Earlier, two senior envoys from Greece – Mr Gerasimos Arsenis, defence minister, and Mr Karolos Papoulias, foreign minister – arrived in Pale as part of a mediation effort.

Mr Arsenis said before leaving that he saw a "basis for negotiation" over the hostages, who were seized by the Bosnian Serbs after two air strikes by Nato against an ammunition depot outside Pale.

In separate high-level diplomacy over the Bosnia crisis, Mr Andrei Kozyrev, Russian foreign minister, arrives in London today with a message from the Kremlin that western powers should avoid getting drawn into the Bosnian conflict as combatants.

Mr Kozyrev is expected to spell out Russia's reservations about the 10,000 extra troops which western nations are sending to Bosnia when he meets Mr John Major, the UK prime minister, tomorrow.

A spokesman for President Boris Yeltsin said yesterday that Russia was prepared to help put pressure on the Serbs, but by "political and moral methods only". Russia has not objected to the extra western troops as such, but it is expected to hold Britain to its promise that the expanding western force in Bosnia will not become a fighting ally of the Bosnian Moslems.

Mr Kozyrev said before leaving for London that he wanted to discuss ways of strengthening the UN force in Bosnia without changing its humanitarian role or mandate.

"What we are eager to discuss is how to strengthen the operation within its present mandate in the framework of the UN procedure," he said.

UN officials have said the reinforcements agreed by western nations over the weekend would bring the UN mission to a level

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Computer boosts Athens capital market

By Kerin Hope in Athens

The Greek central bank has taken a vital step towards modernising the Athens capital market by launching a computerised system for trading in treasury bills, the government's main instrument for financing the country's swollen public debt.

The government has to raise between Dr150bn ($640m) and Dr500bn every month to roll *over existing debt and cover* additional borrowing needs, largely the result of generous spending policies and low tax revenues in the 1980s.

Greece's public debt has soared to more than 115 per cent of gross domestic product, far in excess of the Maastricht target.

The government hopes the computerised book entry system will reduce debt financing costs by promoting a secondary market for government bonds. Run by the Bank of Greece it will replace a paper-based system which has inhibited secondary trading, partly because of long delays in printing treasury bills.

A senior central bank official said: "There is growing demand for treasury bills in the secondary market, but it is difficult to meet this through an informal trading system based on paper. The three-month bill wasn't printed up until the day before it expired, while it took seven or eight months before the 12-month bill was ready for delivery."

In spite of fiscal reforms Greece will be unable to trim its debt to 60 per cent of GDP by 1999, in accordance with the Maastricht requirements for participating in European monetary union.

"We'll make some progress on reducing the overall debt as budget surpluses increase. But a more sophisticated and efficient bond market will also help bring down the cost of debt financing," says a government economic adviser.

The government has little difficulty in raising the funds required because it sets high interest rates for treasury bills, which are still tax-free in contrast with bank deposits. Large amounts of money earned in Greece's flourishing black economy are also funnelled into treasury bills in what one analyst called "a legitimised form of money-laundering."

High real interest rates of about 6 per cent on the 12-month treasury bill, the most popular debt instrument, also attract investors from abroad. Greece's foreign exchange reserves have doubled to almost $16bn over the past year.

The central bank's new trading system was introduced at last week's sale of treasury bills, which raised more than Dr400bn, considerably more than the Dr165bn needed to renew existing debt.

"It will take a few months to be accepted, because some Greek investors are still suspicious of owning a bond they can't hold in their hand. But the volume of trading will pick up quickly as international investors can now get into the market on a much bigger scale," said one bond trader.

High demand for recent treasury bill issues has left the government with a Dr1,500bn reserve, the largest ever recorded.

With the computerised trading system in place and a cushion of funds in hand, the finance ministry is now preparing to abandon administered interest rates and hold Greece's first auction of treasury bills, provisionally set for mid-June.

New higher credit rating buoys international push for funds

Poland bangs investment drum

By Anthony Robinson

Buoyed by an investment grade credit rating last week from Moody's, the international credit agency, a Polish investment promotion road show will arrive in Hong Kong next week. It will be the first port of call in a swing through Asia and Europe before a grand finale in New York later this month.

Behind the razzamataz, choreographed by J P Morgan, the New York investment bankers and headed by Mr Grzegorz Kolodko, the finance minister, the road show will attempt to drum up investor interest in Poland's first Eurobond issue, *a relatively modest $200m*. A central selling point will be the transformation of the country's external accounts following two large debt reduction agreements and a sharp exports rise.

The combination of debt reduction, rapid economic growth and sharply higher export revenues have transformed Poland's capacity to repay its lowered debt, while the investment grade credit rating has freed it to tap new sources of private capital around the world, including pension funds and other institutions.

Poland's progress from 1980s financial pariah to an investment grade credit rating took a mere five years, and some early political arm-twisting by the formidable Polish lobby in the US congress and elsewhere. But the time-lag between the conclusion of Warsaw's Brady-style debt reduction agreement with commercial banks in March 1994 and last week's rating was even more spectacularly brief. It took Mexico 11 years before it was able to live down its own Brady-style debt write-down in 1981 and obtain a similar rating from Moody's.

But Poland's new rating has left a sour taste for some in a region where up to now only the Czech Republic enjoys an investment grade rating from all three rating agencies. Even Slovakia has a Polish-style rating from Moody's, while Hungary languishes at sub-investment grade, except in Japan where an investment grade rating has opened the way for a succession of Samurai bond issues in recent years.

Hungary's exclusion from western agencies' investment grade rankings is irritating for Hungarians. Over three decades the country's central bankers steadily borrowed abroad to finance modernisation.

Unlike Poland, whose Communist-era debt was borrowed mainly from official credit sources, about 80 per cent of Hungary's $30bn gross debt has been borrowed from private investors, including many Japanese. Their confidence has been built up over decades because Budapest has always repaid both capital and interest on the nail.

Budapest's payments record also helped ensure that, over the past five years, Hungary attracted the lion's share of foreign direct investment into central Europe – over $8bn, some 60 per cent of the total.

Nevertheless, Standard & Poor's downgraded its foreign currency debt outlook from stable to negative in February. Ironically, that action was published on the same day that Mr Gyula Horn, the prime minister, appointed Mr Gyorgy Suranyi head of the National Bank *and the equally highly* regarded Mr Lajos Bokros as finance minister. Since then, Hungary has devalued and introduced the first of a tough two-part austerity package of spending cuts, tax rises and ultimately self-financing social security reforms.

Today, Mr Horn, flanked by his top officials, begins a week of meetings with US politicians and IMF officials. The IMF froze Hungary's last standby loan in 1992 when Budapest overshot budget deficit and other targets. With spending now in check and credibility largely restored, Mr Horn hopes to return with the prospect of a full three-year IMF standby loan this year.

But Hungary's high profile US visit is also part of a wider strategy aimed at gaining a coveted investment grade rating, for it is this which makes it possible to tap the pension funds and the other institutional investors whom the Poles are setting out to woo next week.

Government to relax its grip on state companies

Poland is to press ahead with long-delayed reforms of the central administration and reduce government control over state-owned companies, writes Christopher Bobinski. Mr Marek Pol, the minister responsible for bureaucratic reform, said yesterday that implementation would begin next year with the creation of new ministries of the economy, and of finance and privatisation, and a separate committee for European integration.

The cabinet will consider the proposed changes next week and the first draft laws are to be sent to parliament later this month. The plans foresee abolition of the ministries for privatisation, industry, foreign trade and construction, as well as the central planning office. The changes, strongly backed by Mr Jozef Oleksy, the prime minister, would transfer control over some 900 state-owned enterprises from the government to local administrations, leaving only 100 strategic companies under central ministries. At present provincial governors are responsible for three quarters of the 4,000 state-owned companies.

The government however, appears to be back-tracking on earlier proposals to create a separate treasury to administer state assets. Mr Pol said a decision had yet to be taken but that supervisory functions could also be conducted by the finance and privatisation ministry. The latter ministry estimates that the state still owns assets worth 69bn zlotys ($30bn), including minority holdings in listed companies and partnerships with foreign investors.

Local elections give Turkish PM a lift

Tansu Çiller: pressures eased

By John Barham in Ankara

A strong performance by Mrs Tansu Çiller, Turkey's prime minister, in elections in two provinces at the weekend is expected to give a boost to her struggling coalition government.

Her centre-right True Path party (DYP) took 40 per cent of the vote, well ahead of the mainstream conservative opposition. The Islamists of the Refah party (RP), one of Turkey's fastest-growing parties, could capture only three mayoralties.

Although the elections were limited, Mrs Çiller turned them into a referendum on her leadership. Just 88,500 people voted in two provinces and 32 towns and villages scattered throughout the interior of Turkey. She mobilised considerable government patronage to support her candidates and personally campaigned on their behalf.

The results came as a relief to party officials. The DYP's opinion poll ratings have plummeted to less than 15 per cent, mainly because of Mrs Çiller's poor economic record. Turkey plunged into a severe economic crisis last year.

Mrs Çiller's aides say she will now move to force a long-delayed package of human rights and economic reform legislation through parliament to clinch a customs union agreement with the European Union. This was agreed in March but must be ratified by the European parliament in the autumn. The Strasbourg assembly says it will not do so unless the Turkish parliament amends the constitution and changes anti-terrorism laws that severely restrict basic rights.

The European Commission is also demanding a series of laws to harmonise EU and Turkish economic regulations before it can give its final approval to the customs union, which is due to come into force next January 1. Both sides see the accord as a way of strengthening Turkey's economy and secular democratic system at a time when political instability is increasing along the shores of the Mediterranean.

However, the customs union, Turkey's single most important foreign policy objective, has become hostage to domestic politics. DYP rebels and their allies in opposition parties have blocked Mrs Çiller's efforts to adopt the reforms. The prime minister's enemies realise the customs union would strengthen her grip over the party and may help her win a general election, which must be called in the next 18 months.

Markets reacted positively yesterday, with the Istanbul stock exchange index gaining 4.2 per cent. Investors were heartened by improved prospects for the customs union. They also believe that pressure has eased for a snap election, which would disrupt the economy. Improving economic results also drove the market ahead. Inflation fell to 78.4 per cent in the 12 months to May, while industrial production rose 14.2 per cent in April, ending eight months' decline.

Matthew Kaminski on the collapse of a bank in a would-be ex-Soviet financial centre

'Latvian Zurich' turns into banking Las Vegas

Riga's thriving old town reflects Latvia's ambition to become an *ex-Soviet Switzerland*. But the closure last month of Banka Baltija, the country's largest commercial bank which helped underwrite the capital's renaissance, points to a harsher reality.

The crisis has been a painful, if necessary, wake-up call for Latvia's young bankers, regulators and customers after the sector mushroomed in the last three years, peaking at 63 banks in 1993 for a country of only 2.7m people and accounting for 63 per cent of Latvia's gross domestic product last year.

Eleven banks folded in the past year, but Baltija is doing the most damage: 500,000 individuals and 20,000 businesses held Lat186m ($380m) at Baltija, about 40 per cent of all *bank deposits. The bank last* week partly resumed operations, but the accounts will remain frozen until Coopers & Lybrand, the UK auditor, finishes poring over the books and the bank re-opens, perhaps later this month.

On May 26 the government, which ignored previous failures, took full control over Baltija, installed new management, and promised to guarantee individual accounts. The fate of Baltija's interbank loans and business accounts remains dubious.

The bail-out, estimated to cost up to Lat100m, threatens to stoke inflation and widen the budget deficit. The collapse of the country's biggest bank puts a strain on liquidity across the economy and casts doubt on Latvia's hard fought stability.

"The sector is frightfully big," said Mr Ardo Hansson of the Stockholm School of Economics. "Baltija's collapse reveals the downside risk of building an economy on banking" – to the detriment of *exporters hurt by the lat, a* currency steadily appreciating on the strength of large capital inflows, mostly from Russia.

At first, banking was manna. With good commercial ports and the only oil pipeline link from the Siberian steppes to the Baltic, Latvia saw its future in financial services: liberal banking rules, no restrictions on capital flows and an internally convertible currency attracted billions of dollars from Russia and other former Soviet republics. Language and old Soviet-era contacts promoted business.

"We're between Russia and Europe, and we have a European-like banking system," said Mr Einars Repse, central bank governor.

Few Latvian bankers deny an almost total dependence on Russian capital, mostly from trade financing. Most banks have large Russian shareholders.

"Russia has crazy currency regulations," said Mr Dzintars Pelcbergs, a 25-year-old first vice-president of Lain Banka, which barely survived a run on deposits in March prompted by the arrest of two managers on fraud charges, later dropped. "It's fluid, fast money, and often only stays in Latvia for a day or so."

The successful Parex Bank, Latvia's second-largest bank which turned a Lat2.4m profit last year and boasts Lat9.2m in share capital, opened the Soviet Union's first foreign exchange kiosk in 1989. Today a branch in Moscow and a representative office in Dnipopetrovsk, in Ukraine's industrial heartland, helps put half *Parex's business outside Latvia* and commit 36 per cent of all loans last year to transit trade.

Ms Anda Stepanovicha, an analyst at Parex, said transferring soft currencies – such as the Russian rouble and Ukrainian karbovanets – helps clients, many of whom trade metals and oil, do business in a difficult environment.

The post-Soviet trade boom in underpriced commodities also fed an increase in so called "pocket banks", opened by and in some cases serving a single shareholder, which inflated their assets by circular transactions. One such was Latintrade bank, closed by the central bank this March when it discovered Latintrade was 95 per cent committed to a single borrower.

Without the support of strong courts, adequate laws and good supervision, Latvia's banking system has been open to misuse.

"It's all a case of running before learning to walk," a World Bank official said. "Latvia should have established better controls before trying to *attract capital*."

He said the signs that Baltija had expanded too quickly, offered excessively high interest rates, and gave out bad loans were "obvious" for months.

The central bank, whose insistence on western audits for the larger institutions helped uncover fraud, has come under attack for not acting quickly enough. Baltija *was allowed to accept deposits* even after its liquidity problems came fully to light in early April.

Mr Repse, a young non-banker respected for keeping the lat strong, last month acknowledged mistakes. A no-confidence motion against him failed to pass in parliament, although the finance minister, Mr Andris Piebalgs, was forced out last week after the Baltija scandal broke.

"Our banks are so irresponsible and dishonest and, in some cases, entirely corrupt, that the use of civilised supervision methods has been a mistake," Mr Repse told Diena, Riga's biggest daily paper.

The central bank is expected to clamp down: already only 16 larger banks, audited by western accountants, are allowed to accept individual deposits. It has also asked parliament to pass banking laws to rationalise the financial system.

"In the old days we held all our money in our pockets," said Ms Vita Pilsuma, a member of the central bank's board. "Now it's important that people don't lose trust in the banking system."

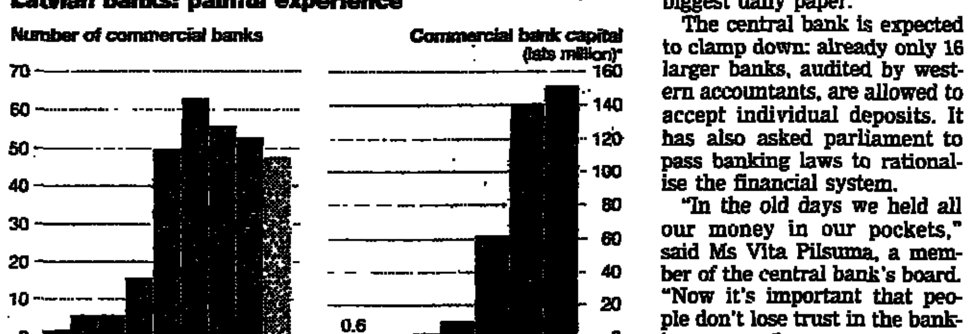
To many local and foreign investors, Latvian banking *already appears to be governed* by eastern rules.

"With a German or a British bank, you close a contract and the obligations are clear," said Mr Abi Zhiv, manager of Akmar Agency, a Riga-based forwarding, shipping and trucking operations. "Here you can close a deal and everything can change in a month."

Some western banks are planning to move in and capitalise on this mistrust. Société Général, which closed its three branches in Riga in 1917, plans to re-open a branch in July oriented to corporate and international trade activity.

Many Latvian bankers call the crisis a belated growing pain, which neighbouring Estonia experienced in 1992 when eight banks closed. Mr Teodoras Tverijonas, president *of the bank association, said* the "corrective period" should leave only 15-20 banks, down from 48 today. He added the stronger banks are also counting on privatisation, stalled the past three years, to move forward – enabling them to diversify into manufacturing after relying on commercial business until now.

Then Riga can start to work to earn the "Baltic Zurich" *label, now used sardonically*. "To be a financial centre you need a track record and a lot of expertise," said Mr Kevin Phillips, chief financial officer at Deutsch Lettische Bank, founded in 1992 by, among others, Mr Anatoly Blik, a Soviet-era basketball star with good contacts in Russia. "That takes time".



EUROPEAN NEWS DIGEST

Moscow focus on social sector

The Russian government will concentrate on financing the social welfare sector in the second half of the year in an attempt to soften the pain of economic transformation, Mr Anatoly Chubais, first deputy prime minister, said yesterday. But he emphasised the spending would come from unspecified additional sources and would not jeopardise government finances. Unemployment has been rising in recent months and thousands of workers have not been paid as the severe monetary squeeze in Russia has tightened. The World Bank and other international financial institutions have been encouraging the government to strengthen the social safety net to cope with the casualties of economic reform.

Mr Chubais said the economy was performing well this year. Inflation was coming under control and industrial production was showing signs of improvement. "Russia has never been closer to real economic revival," he said yesterday.

Mr Oleg Davydov, the minister in charge of Russia's external debt negotiations, said the Paris Club of official creditors was "euphoric" about the improvements in the economy and had agreed to revise the interest payment schedule, meaning Russia would only pay $1.1bn this year. *John Thornhill, Moscow*

Chechen stronghold captured

Russian forces pressed their offensive against Chechen rebels yesterday after capturing the mountain stronghold of Vedeno, headquarters of the rebel leader, Gen Dzhokhar Dudayev, 40km south-east of the capital, Grozny. But separatists, who shot down a Russian attack helicopter, said the loss would only make them alter their tactics. A rebel commander was quoted by Itar-Tass news agency as saying that rebel units had regrouped and were switching to partisan warfare.

A Russian officer in the territory said the capture of Vedeno marked a significant change in the balance of forces. Gen Dudayev's fighters had been forced back 7km-10km south of the town, he claimed. Vedeno is located in a thickly wooded gorge more than 8,000 feet above sea level. It has particular historic importance for Chechens since it was the last stronghold of the 19th century Caucasian hero Imam Shamil, who held off the armies of the expanding Russia Empire for more than 30 years.

Russian troops, sent into the north Caucasus territory last December to crush its three-year independence bid, have seized plains in central and northern Chechnya. Vedeno was their first major gain in rebel-controlled mountains to the south. *Reuter, Moscow*

Kuchma pushes for referendum

Ukraine's President Leonid Kuchma (left) tried yesterday to push ahead with a referendum on June 28 on public confidence in parliament and in himself. He issued a decree invalidating, he claimed, parliament's veto of the proposed referendum last Thursday. Parliament is afraid of the president gaining a stronger mandate to implement radical economic and constitutional changes. President and parliament, whose strained relations are governed by an outdated constitution, have been at odds over the economic reform programme backed by the International Monetary Fund and favoured by Mr Kuchma. A Gallup poll released yesterday suggested the president would win a non-binding referendum overwhelmingly.

The government, meanwhile, said $2.1bn in IMF support had helped lower inflation to 4.6 per cent last month from 5.8 per cent in April. Mr Kuchma also said Ukraine should introduce its new currency, the hryvnia, as early as September. It will replace the karbovanets, which has stabilised this year, trading at 150,000 to the dollar since February. The president told farmers in central Ukraine the government wanted to build up a $1.5bn stabilisation fund before introducing the new currency. The karbovanets was introduced in 1992 at parity with the Russian rouble but quickly devalued because of a surge in inflation in 1993-94. *Matthew Kaminski, Kiev*

Romanian strike collapses

A three-day-old strike by Romanian energy workers petered out yesterday after the government threatened to sack them, but trade union leaders said tension remained high. "It appears that the protest has ended. According to my information, most of the workers returned to work," said Mr Vasile Suta, executive leader of the Energetica union.

On Friday, some 37,000 employees at 33 of the Renel RA electricity authority's 37 power stations refused to start their shifts, complaining about low pay and a government decision to link future pay rises to productivity.

Railway workers called off a similar stoppage yesterday after the management agreed to a 15 per cent pay rise and compensation for planned redundancies.

The government, meanwhile, announced a 15 per cent rise in the price of electricity, natural gas and coal. It blamed an increase in the price of equipment used to produce electricity and extract natural gas and coal. *Reuter and AP, Bucharest*

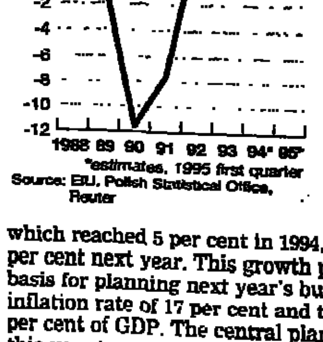
Electricity chief suspended

Mr Franco Viezzoli, chairman of Enel, the Italian state electricity authority, has been suspended for two months from his managerial role. The move – by a Milan judge – followed a decision last month to send Mr Viezzoli for trial, along with 160 other businessmen, politicians and civil servants, on charges of corruption relating to bribes reportedly worth some L100bn (£38.4m) paid on Enel contracts.

Mr Viezzoli's lawyers immediately challenged the ban. But this latest judicial decision is likely to put further pressure on the government to address the problems of managing the electricity giant which was due to be privatised this year. *Robert Graham, Rome*

ECONOMIC WATCH

Polish growth at 5.5-6.5%



The Polish economy grew by between 5.5 and 6.5 per cent in the first quarter of the year compared to the same period in 1994, the country's central bank says in a report to parliament. This compares with the 7 per cent figure estimated by the Gdansk-based Independent Institute for the National Economy, but is in line with the government's assumption that the economy will grow this year by 5-6 per cent.

According to the government's central planning office gross domestic product growth, which reached 5 per cent in 1994, will be between 5.3 and 5.5 per cent next year. This growth prediction is being used as the basis for planning next year's budget which assumes an inflation rate of 17 per cent and that the deficit will reach 2.8 per cent of GDP. The central planning office expects inflation this year to reach 22 per cent; the budget deficit has been fixed at 3.2 per cent of GDP. *Christopher Bobinski, Warsaw*

Union pledges determination to press for 6% increase in wages

Strike threat by German shop workers

By Michael Lindemann in Bonn

An estimated 2.3m German retail workers are threatening to go on strike this week after union leaders rejected a 3.4 per cent pay offer.

Mr Hubert Gartz, the deputy chairman of the DAG union, one of two unions representing the retail trade, warned that the union would continue to press for a wage rise of 6 per cent and would resort to strikes if necessary.

"The ballots we have so far conducted in department stores and DIY stores in several Länder show a considerable willingness to go on strike," Mr Gartz said.

Various regional wage talks are expected to start again today while strikes and walkouts are expected in Baden-Württemberg and Thuringia, two Länder where talks have stalled.

Several department stores and shops were hit by strikes at the weekend, but employers said that shoppers were barely affected because auxiliary staff were used to keep shops open.

The pay talks for the retail trade are one of the last of the big wage rounds conducted annually for each of the big branches of the German economy.

The benchmark for wage rises was set in March when the engineering industry settled for a wage rise of around 3.8 per cent over two years, a deal which had to be pushed through with the first strike in the engineering industry since 1984.

However, retail trade employers are likely to argue that they cannot improve on their best offer because retail sales have remained weak even though other sectors of the German economy have made a surprisingly quick recovery from the country's worst post-war recession.

The BAG association which represents medium-sized retail outlets said retail sales in 1994 were less than those a year earlier – the first time in 30 years that sales have fallen on a year-to-year basis.

Kaufhof, one of the leading retail groups, last month reported a 43 per cent fall in 1994 net profits to DM137m ($95m). Spending has remained stagnant, partly because of an effective wage freeze during last year's recession, and partly because of new taxes.

Meanwhile, workers in the east German retail trade said they would continue a strike begun last week and press for an 11 per cent pay rise with a commitment to match the wages earned by their west German counterparts by 2000. Employers have offered an 8.9 per cent pay rise.

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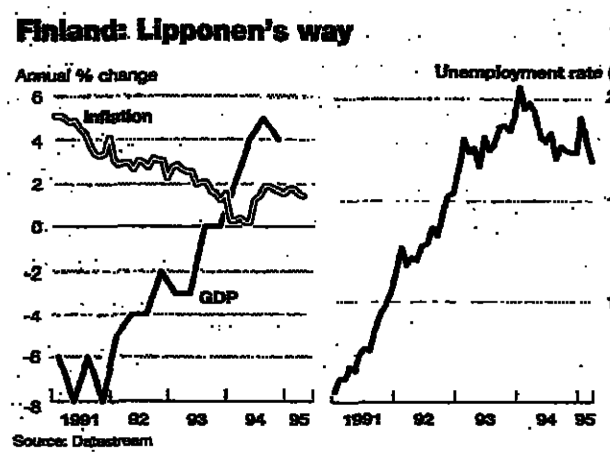
Finland's new PM breaks Nordic mould

Christopher Brown-Humes finds that Paavo Lipponen's pragmatic approach to politics and economics has proved a hit with markets

Paavo Lipponen: 'government based on common thinking'



Source: Datastream

Mr Paavo Lipponen, the new Finnish prime minister, has made it clear that his brand of Social Democracy represents a radical departure from the traditional Nordic model.

Barely eight weeks into office he has announced big spending cuts, supported lower taxes, promoted more flexible labour markets, and put the responsibility for job creation firmly on small business and services, rather than the public sector and big industry.

"We are talking about a paradigm change," says Mr Lipponen in a rejection of the inflationary policies and devaluations on which Finland has relied to escape economic difficulty in the past.

The markets have loved it. The markka has risen progressively and long-term bond yields have fallen by a whole percentage point over the last two months, narrowing the gap with German equivalent bonds to around two percentage points.

The strategy has been underpinned by the creation of a five-party coalition government, which holds 145 seats in the 200-seat parliament. A desire for consensus has led to the inclusion of the former communist Left Alliance and the Green party in the team, even though the Social Democrats would have had a comfortable majority if they had chosen only to work with the Conservatives and the Swedish People's party.

"This is a government based on common thinking not trading," Mr Lipponen stresses. He says he was only prepared to bring the Left Alliance into power after the party had accepted the need to cut spending by FM20bn ($4.6bn) or 4 per cent of gross domestic product, over the next four years. But his move should also neuter any left-wing revolt as the pain from the cuts, which target child and unemployment benefits among other measures, starts to bite.

The savings programme is central to the government's main ambition to halve Finland's 18 per cent unemployment rate, the second highest in western Europe, because it is designed to get interest rates down and stimulate investment. The plan also aims to help Finland meet the criteria for European economic and monetary union and is matched by a determination to keep inflation low.

The ravages of the country's 1991-1993 recession, when GDP fell by 15 per cent, are reflected today in a 5 per cent general government deficit and a public sector debt load of nearly 70 per cent, both of which fall outside Maastricht targets.

Yet conspicuous by its absence is any attempt to address the problems by following Sweden, which has similar difficulties, in imposing hefty tax rises. Indeed the type of Social Democracy espoused by Mr Lipponen would be largely unrecognisable to the Swedish prime minister, Mr Ingvar Carlsson, but it would certainly strike a chord with Mr Tony Blair, the British Labour party leader.

Pragmatism is the Lipponen watchword. It extends to the planned changes in labour market practices and to the emphasis on cutting taxes for small business.

It is also to be found in plans to continue the privatisation programme of the former centre-right government of Mr Esko Aho. A big chunk of Neste, Finland's leading industrial group, will be sold off later this year if markets remain favourable, while officials within the Trade and Industry Ministry indicate that up to a third of the shares in Imatran Voima, the country's main power group, could be sold within two years. This willingness to consider even a partial sell-off of strategic state assets again distinguishes the approach of Finland's Social Democrats from Sweden's.

Much is going Mr Lipponen's way with the economy growing by up to 6 per cent this year, inflation at 2 per cent, a boom in the export sector and a surge in industrial investment.

Wages, however, remain a sensitive area after big increases in the latest annual pay round, which is why Mr Lipponen favours an incomes policy. "We have to ensure that increases in profits and earnings in the export sector do not spread inflation into the economy," he says.

Mr Lipponen, a former journalist and a specialist in international affairs, could yet regret committing himself to a halving of unemployment within his term in office. He could also find the trade unions, which have so far accepted his programme with remarkable equanimity, becoming restive, while a Left Alliance defection from the government would surprise no-one.

But Mr Lipponen is stressing the importance of a common endeavour by politicians, unions, employers and society at large to overcome the country's difficulties. "We are at a very crucial stage in our economic history. We have a real chance to recover from the crisis and create a strong economy. We must not lose it."

Italy begins to prepare way for return to ERM

By Robert Graham in Rome

The government of Lamberto Dini has begun to prepare the way for Italy's eventual return to the European Exchange Rate Mechanism almost three years after the lira was forced to float by the September 1992 currency crisis.

The re-entry of the lira into the ERM is a central feature of the government's three-year macro-economic programme which was endorsed by the cabinet last Friday and outlined at a press conference yesterday by Mr Rainer Masera, the budget minister.

In recent days the issue has begun to be discussed in an informal way with Italy's main EU partners. "No formal request has been made to our [EU] partners; but this is the hypothesis on which we are working," Mr Masera said yesterday.

Mr Dini, the prime minister, is committed to the idea, not least because renewed membership of the ERM provides strong external links that discipline domestic policies. This view is shared by most of the business community who recognise the free floating lira has brought short-term benefits at the cost of serious inflationary pressures.

The 1996-98 macro economic programme's outline document states: "The need for re-entry stems not merely from the institutional requirements for a currency to be inside the ERM for two years prior to proceeding to the third phase of monetary union.

It also comes from the conviction that re-entry will help bring the lira's parity and interest rates back to levels which reflect the true state of the country."

But despite the Dini government's enthusiasm for the lira to be readmitted, many economists still regard the idea as little more than a statement of good intentions. The same applies to the optimistic projections in the 1996-98 macro-economic programme which envisage cutting the public sector deficit from 9 per cent to 3 per cent by 1998.

It was notable last week that Mr Antonio Fazio, governor of the Bank of Italy, in his annual statement completely ignored the topic.

Mr Masera yesterday did not underestimate the problems along the path of re-entry. He said rejoining the ERM would be conditioned by three domestic elements: approval by parliament of the reform of the pensions system; endorsement of the 1996 austerity budget in the framework of the 199698 macro-economic programme; and substantial progress towards meeting the convergence criteria on inflation and the public sector deficit laid down in the Maastricht treaty. It was also important that delays were overcome in the programme of privatisation.

Approval for the pensions reform is now unlikely before the end of July and it is still uncertain how parliament will amend the government's proposals.

Equally parliament is unlikely to approve the guidelines of the 1996-98 macro-economic programme before July. However, once approved the government can then formulate the 1996 budget.

This means Italy will not be in a position to demonstrate it has started on the path towards complying with the elementary pre-requisites for re-entry before the autumn. Until then Italy's partners are not expected to make any formal move.

In the meantime they have let it be known that the crucial issue will be the parity of the lira. The Italian currency's old floor against the D-Mark in the ERM was just below L770. Since leaving the ERM it has reached almost L1,200 and is now being traded at L1,150.

Two years ago, Italian officials talked of L950 being a reasonable parity against the German currency. This has been adjusted more recently to a L1,050-1,100 band but neither levels would be easily acceptable to the Germans and French.

Israeli opposition Likud party likely to split

Levy: boycotted meeting

By Julian Ozanne in Jerusalem

Israel's rightwing opposition Likud party went ahead with a controversial convention on electoral rules yesterday, despite threats from a senior Likud leader that it would provoke a damaging split and lead to the creation of a breakaway political party.

Barring a last-minute compromise, Likud officials expect the party to split within 24 hours, with damaging consequences for the party's electoral fortunes and its ability to present a united opposition against the Labour-led government.

Mr David Levy, the influential former foreign minister in the last Likud government and representative of Sephardic or Oriental Jews who emigrated to Israel from North Africa, said last week that if the meeting went ahead it would force him and his supporters to quit the party.

The prospect of a split alarmed leaders of Likud, which was the traditional party of power in the 1980s. "If there is a separation, the Likud will suffer great damage in the next elections because Levy represents a wide portion of the Israeli public," Mr Meir Sheetrit, a Likud member of parliament and member of the Sephardic community, warned minutes before the meeting began. "It will be a bullet in the head."

At least 2,000 Likud central committee members met in Tel Aviv last night to decide what system to adopt for the selection of parliamentary candidates for November's general elections.

Mr Levy, who boycotted the meeting, claims the primary system presented to the central committee by Likud leader Benjamin Netanyahu will marginalise the Sephardic community which makes up 80 per cent of Likud's electorate. He has unsuccessfully demanded that he and his supporters be guaranteed 40 per cent reserved places on Likud's parliamentary list rather than compete in first-past-the-post primaries.

"The mood in Likud isn't what it used to be," Mr Levy said. "We are not resigning from the Likud, we are being pushed out. And, if as a result of these actions we will have to establish a new party, we will do so."

Mr Netanyahu's supporters say Mr Levy, who lost the leadership battle in 1992, is trying to blackmail the party, overturn internal party democracy, restore ethnic politics and pursue a personal power battle against Mr Netanyahu. Senior Likud leaders say Mr Netanyahu has resigned himself to the split and calculated that the party will do better without the continual internal division Mr Levy has fostered since the leadership battle.

Mr Netanyahu, who is assured of a majority in the central committee, said last night the party should not give in to threats and ultimatums and should proceed in a democratic manner with everybody accepting the majority decision.

Political experts say a Likud split will almost certainly harm the party. In Israel's complex coalition politics, small political parties can often emerge as the power brokers of future governments.

An opinion poll conducted last week showed that a new political party led by Mr Levy would win five of the 120 parliamentary seats, denying Likud an electoral victory over Labour and making Mr Levy a possible king-maker.

Kohl promises cash to help Middle East peace

By Julian Ozanne

Chancellor Helmut Kohl yesterday pledged German and European financial support for water and regional economic projects designed to underpin Middle East peace, in a tripartite summit with the leaders of Israel and Jordan.

Mr Kohl, accompanied by a German business delegation on a Middle East tour, called for joint ventures between German, Israeli and Jordanian companies to "breathe life into the peace process for the generations to come".

"I think we should send a *very clear and* unequivocal message to the other parts of *the world... where blood is* shed." Mr Kohl told a joint news conference with Israeli prime minister Yitzhak Rabin and King Hussein of Jordan.

Jordanian officials said Mr Kohl, who visited Egypt and Jordan over the weekend, signalled support for $600m (£382m) worth of water projects critical to transforming the arid Jordan Valley.

Projects being studied include several dams, desalination plants and pipelines to give Jordan access to more than 150m cubic metres of water a year. A $5m pipeline which will carry 30m cubic metres a year from the Sea of Galilee to the 110km King Abdullah canal irrigating the Jordan Valley is expected to be completed this month.

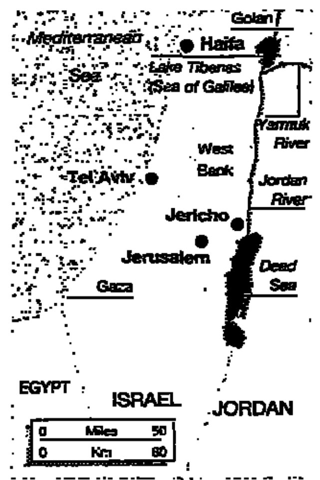
"I hope beyond this water project we will be able to intensify further the economic relations between the countries of the region and Europe, the member states of the European Union, and specifically between Germany and Israel," Mr Kohl said.

Today, Mr Kohl will meet Israeli political leaders, who are expected to lobby him for support for Israel's demands, which are blocking signature of an improved EU-Israel trade agreement.

Israeli officials said the new agreement would be the main item on the agenda and Mr Kohl's response would determine the success of his visit to the Jewish state. Germany is one of Israel's main trading partners and last year Israel had a $1.6bn trade deficit with Germany, which it hopes to reduce through the new trade association agreement. Israel's total trade deficit with the EU in 1994 was $7.4bn, excluding diamonds.

Israel's foreign ministry will also seek to change Germany's strong opposition to the establishment of a Middle East development bank capitalised at $5bn. The bank, strongly supported by Israel, Jordan, Egypt, the Palestinians, Morocco, Japan and the US, has faced stiff European opposition and is expected to be discussed at the G7 summit in Canada next week

Volkswagen, represented in Mr Kohl's entourage by chief executive Mr Ferdinand Piëch, is expected today to announce a memorandum of understanding with the Dead Sea Works, a subsidiary of Israel Chemicals, to form a joint venture to build a magnesium production plant near the Dead Sea. The first phase of the $600m, five-year project is estimated to cost $325m and Volkswagen will have 35 per of the joint venture, one of the largest by a European company.



Mandela to face questions on killings

By Roger Matthews in Johannesburg

President Nelson Mandela is to be interrogated by South Africa's top police officer following his admission in parliament that last year he ordered security guards at the headquarters of the African National Congress to shoot to kill if the building was attacked.

Eight members of the mainly-Zulu Inkatha Freedom party died soon afterwards when a protest march outside the ANC headquarters in central Johannesburg was fired on by gunmen whose identity is still officially unknown after 14 months of police investigations.

Mr George Fivaz, the national police commissioner, said yesterday he would seek a statement from Mr Mandela on the incident as a result of the president's revelations. Mr Fivaz said he wanted to complete the investigation as swiftly as possible, and *appealed to politicians to stop* making inflammatory speeches which could pose a danger to safety and security.

Mr Mandela told the Senate last week that he issued the instruction on March 28 last year, when he feared that protest marches by the IFP could threaten the ANC building and the staff inside. "It was absolutely necessary for me to give that instruction," he said.

Mr Mandela's admission has been condemned by the IFP, which is already locked in an acrimonious dispute with the ANC over the degree of autonomy to be given to KwaZulu-Natal in the final constitution. Chief Mangosuthu Buthelezi, the IFP leader, has withdrawn in protest from the Constitutional Assembly, which is drawing up the final constitution, but said yesterday that he would remain as minister of home affairs in the government of national unity.

The IFP has urged the police to charge Mr Mandela with being an accessory to murder and claimed that, although he had not been present at the killings, they resulted from his instructions.

Mr Mandela's apparent *acceptance of responsibility* for the actions of the ANC guards may be designed to draw a political line under the events of that day, in which nearly 60 people died in clashes throughout the Johannesburg area. But he has also reminded Chief Buthelezi of the lengths he has in the past been prepared to go to fight challenges to his authority.

Several times this year Mr Mandela has emphasised that, although he would prefer consensus and conciliation, in the last resort he must impose discipline. He has been particularly angered by Chief Buthelezi's *call for a programme of* mass civil disobedience against ANC proposals for limited regional autonomy.

US moves threaten ILO budget crisis

By Frances Williams in Geneva

The International Labour Organisation begins its annual conference today under the shadow of a looming budget crisis, precipitated by the slump in the value of the dollar and threats by the Republican-controlled US Congress to slash or eliminate Washington's contributions to the United Nations body.

The agency's proposed budget for the two years 1996-7, due for approval at the conference, was set at $500m (£318m), on the assumption that the dollar was worth SFr1.45. With the dollar now buying only about SFr1.15, the same budget denominated in Swiss francs, in which the ILO incurs most of its costs, would need to be raised by 25 per cent to $625m.

Countries with weak currencies have already indicated that they may have problems increasing contributions and the ILO's difficulties have been compounded by uncertainty over US payments. In common with *much of the UN system*, the ILO receives a quarter of its funding from Washington.

The agency, which upholds worker rights and advises governments on employment and labour issues, has operated a zero real-growth budget since 1987 and Mr Michel Hansenne, ILO director-general, says there is no fat left. Further spending reductions will mean painful cuts in programmes, he says.

The state of ILO finances is expected to dominate the two-week conference, during which representatives of governments, employers and trade unions from more than 170 countries are also due to discuss employment promotion, mine safety and social protection for millions of home workers.

Despite staunch support for the ILO from the Clinton administration, and US employer and labour organisations, the Senate foreign relations committee has voted to cut off the agency's funding altogether, while the House of Representatives' foreign affairs committee has lopped $11m from the proposed US contribution of $64m this year.

President Bill Clinton has said he will veto the budget proposals as they stand. They include cuts in funding for a range of UN and other international organisations. But Mr Hansenne says he is expecting a US contributions shortfall for 1995. Washington pays its UN dues at the end of each year, so its 1995 contributions fall within the 1996 fiscal year.

ILO officials also fear more countries will follow the US lead in cutting their contributions. By contrast, when the US briefly pulled out of the ILO in the 1970s, complaining of "Israel bashing" and non-independence of Soviet-bloc trade union representatives, other ILO members helped to fill the funding gap.

G7 warned on borrowing

The governments of the world's top industrial nations are fuelling turbulence in the currency markets by failing to restrain borrowing, an international business group warned yesterday, reports Robert Chote. Ahead of next week's G7 summit in Halifax, Nova Scotia, the International Chamber of Commerce called for a "substantial reduction of structural budget deficits, a reversal of the rapid growth in public sector debt, and the correction of serious imbalances between domestic savings and investments".

China urges delay in setting up HK supreme court

Hopes raised that Beijing will start negotiations for a genuine final arbiter

By Quentin Peel and Tony Walker in Beijing and Simon Holberton in Hong Kong

Mr Qian Qichen, the Chinese foreign minister, yesterday called for a delay in the establishment of a new supreme court in Hong Kong. The move could unlock a deal with Britain on the most contentious issue still to be resolved over the 1997 transfer of power in the colony.

He also issued a stern warning against any further unilateral British moves to establish new laws and institutions in Hong Kong before 1997.

In spite of his tough tone, the plan for Hong Kong could provide the framework for a deal in the latest confrontation with Britain over the powers of the supreme judicial authority in the territory.

If agreement can be reached, it would amount to a breakthrough in frosty relations between Britain and China over Hong Kong's transition to Chinese rule, and help revive business confidence in the colony.

Mr Qian called for a delay in setting up the planned court of final appeal until July 1 1997, the day Hong Kong becomes part of China. He proposed instead that the British Privy Council should remain the highest court until the day before the transfer.

The hope is that that may mean China is prepared to negotiate each step in the establishment of the court. Such a deal would satisfy Beijing's concerns about sovereignty and, ideally, British concerns that the court would be a genuine final arbiter.

Suitable guarantees on the jurisdiction of the court are still to be agreed, and further talks are expected to take place this week. Mr Qian's comments suggest a willingness to negotiate.

"We are at a sensitive stage of negotiations concerning all aspects of the court of final appeal," a spokesman for Mr Chris Patten, the Hong Kong governor, said last night. "The nub of our position is that we want to ensure a genuine court of final appeal to replace the Privy Council. This has to be acceptable and to command the confidence of the local and international community."

Mr Patten and Hong Kong's pro-democracy politicians see the court as critical to the future rule of law in the territory, because it will provide an independent final judgment in all legal cases except those relating to "acts of state" – meaning foreign policy and defence. But Mr Patten had threatened to press ahead with his own law if no agreement with China could be reached.

"This is something which the Chinese side cannot accept", Mr Qian said. "If those decisions made by the British side before 1997 are to be continued after 1997, then it is necessary for both sides to reach consensus".

Mr Qian gave no hint of the Chinese attitude to the powers of the court in his interview, while insisting that it would "definitely" be established with effect from July 1 1997.

"There will be no judicial vacuum in Hong Kong," he said. "Before 1997, the right of final appeal will rest with the Privy Council in Britain. In order for the court to come into operation on July 1, it is necessary to make preparations for it. China and Britain can have discussions and reach agreement on this."

Mr Qian also said he would try to pay his planned official visit to Britain later this year, which has been on ice because of the stalemate in talks over Hong Kong.

Qian: will not rule out China penalising US business

Vietnamese refugees hold a friend they say was wounded by police in the protest at Kuala Lumpur's Sungai Besi camp Reuter

Malaysia quells protest by Vietnamese boatpeople

Malaysian riot police used tear gas and water cannon last night to force a group of Vietnamese refugees to return to their camp on the outskirts of Kuala Lumpur, Kieran Cooke reports from Kuala Lumpur. The refugees were protesting about being forcibly repatriated: they claimed conditions at the Sungei Besi camp, home to nearly 4,000 Vietnamese boatpeople, had deteriorated.

The demonstration was similar to protests earlier this year by Vietnamese refugees at camps in Hong Kong and the Philippines. The refugees (5,000 at the Kuala Lumpur camp) broke down fences, saying they wanted to march to the US embassy.

About 50,000 Vietnamese refugees are in cramped camps in Hong Kong and countries of south-east Asia. Most are classified as economic migrants, so are not eligible for settlement elsewhere.

A recent meeting of donor countries to the UN High Commissioner for Refugees said the Vietnamese in the camps no longer qualified for international aid and should return to Vietnam by the end of this year.

Malaysia says it wants to close the Sungei Besi camp by the end of August.

ASIA-PACIFIC NEWS DIGEST

Foreign debt up in Australia

Australia's net foreign debt increased by A$3.7bn (£1.68bn) to A$168.9bn in the March quarter, a reversal of a trend in previous quarters when it appeared to be stabilising in absolute terms and declining as a proportion of gross domestic product. *In the three months to March, the ratio of net foreign* debt to GDP stood at 37.2, up from 36.9 per cent in the December period.

The increase was attributed to a recent sharp fall in the Australian dollar, which boosts the foreign currency-denominated component of the debt; some economists had been warning of an even bigger rise, perhaps of A$10bn. Mr Ralph Willis, treasurer, yesterday acknowledged the government needed to stabilise the situation "over the medium-term". *Nikki Tait, Sydney*

Japan may donate aid to PLO

The Japanese government yesterday revealed it was considering granting official development assistance to the Palestine Liberation Organisation. Mr Kozo Igarashi, chief cabinet secretary, said that details were yet to be finalised, but a decision was expected in the next few months.

The move would be Japan's first in providing assistance to an entity not a recognised state. Japan has so far provided funds to the PLO through international organisations including the UN Development Programme and the UN Relief and Works Agency for Palestine Refugees in the Near East. Tokyo claims the move comes in response to the Middle East peace process, but some analysts say it could ease the way for Japan to assist North Korea, with which Tokyo does not have full diplomatic relations. *Emiko Terazono, Tokyo*

■ South Korea's May M2 money supply rose 16.9 per cent from a year earlier, provisional Bank of Korea figures showed. The bank said it would peg June growth at 17 per cent. *Reuter, Seoul*

■ Fast-industrialising Asia needs up to $50bn (£32bn) a year to generate and supply power, making the private sector an increasingly attractive source for building power plants, Mr Paul Nickson, senior engineer with the International Finance Corporation (IFC), part of the World Bank group, told a coal conference in Bali. *Reuter, Nusa Dua, Indonesia*

Poll reform set to fragment New Zealand's party politics

New proportional representation system favours smaller groupings and will allow room for less mainstream views, writes Nikki Tait

Sir Roger Douglas, the former Labour party finance minister who set New Zealand on its much-applauded road to economic rectitude 10 years ago, sits in a sparsely furnished office in Auckland, explaining why the process is unfinished.

"While it's true we've had reform in the economic arena, we haven't had genuine reform in the social policy area," he says, with cheery bluntness. "And if we don't reform the social policy area, in my view that is going to come back and bite us in the long term."

So Sir Roger would like New Zealanders to abolish income tax. In return, they would be asked to make their own arrangements, via the private sector, for health and pensions. The government would continue to run a social safety net, and also allocate a fixed annual sum for the education of each child, to be spent as parents wished. But the state's much-diminished expenditures would be funded principally from existing indirect taxes on goods and services.

The twist is that this is not political whimsy. A new electoral system in New Zealand – which replaces the "first past the post" method of electing MPs, with a type of proportional representation known as Mixed Member Proportional (MMP) – is giving fringe parties, such as Sir Roger's newly formed Association of Consumers and Taxpayers (Act), hopes of real power.

New Zealanders chose the system in a referendum two years ago. Late last month redrawn electoral boundaries were unveiled. The next election, which can be called any time before late 1996 when the current government's term expires, is to take place under the new rules.

> New Zealand's economic reforms have been socially unfair and would not be adopted by any civilised country, Mr Peter Cook, Australian industry minister, told parliament yesterday, Reuter reports from Canberra.
>
> Mr Cook said he welcomed New Zealand's strong economic growth, but the costs of the reforms which produced it were too high. "While one welcomes the changes in the New Zealand economy, it's not a route any civilised government would want to take in my view. It's too brutal, too socially divisive."
>
> Mr Cook was referring to heavy staff cuts in New Zealand's public service and cuts to unemployment and other social benefits during the early 1990s. New Zealand's recent strong economic growth and low unemployment rates were due in part to Australia's own economic growth and to large numbers of New Zealand's unemployed now living in Australia, he added.

In essence, MMP gives each adult New Zealander two votes for the single-chamber parliament. The first is for 65 constituency MPs, the second – a so-called preferred party vote – for 55 representatives drawn from party lists.

The system will benefit smaller parties. In the 1993 election one of the two established minor parties – the left-leaning Alliance – won 18.7 per cent of the vote but gained only two seats. Under the new rules, a similar result would give it more than 20 MPs.

To qualify for list seats, smaller parties need to get more than 5 per cent of the popular vote or win at least one constituency seat. Some may make the grade on the latter score thanks to high-profile leaders. For example, New Zealand First, which holds two seats in the current parliament but has dropped below the 5 per cent level in some recent polls, can probably rely on Mr Winston Peters, its founder and a former National party cabinet minister, to ensure that it gains representation.

Others, such as Act, which has business backing but has been polling at the 4 per cent level to date, may depend more heavily on advertising and promotion. In any event, Sir Roger is breezily confident.

"Oh yes, I don't see any problem with [the 5 per cent threshold]. It's really Act versus the rest. If you think about it, all the other political parties are the same . . . politicians who take your money make you dependent on them. What we're really saying is something strange; we're saying you're smarter than that. Do it yourself."

Already, aspiring parties are everywhere. The Electoral Commission, which must vet any organisation that wishes to put a party list before voters and ensure that it has at least 500 paid-up members, has approved eight so far.

The ruling National party's wafer-thin majority in the current parliament has been partly undermined as MPs have defected to head the new groupings. Mr Graeme Lee, the National party MP for Matakana, broke away to lead the Christian Democrats last month, signing a coalition agreement that will see him support the government on confidence matters.

Mr Ross Meurant, another former National MP, who formed the new Right of Centre party, already operates on a similar arrangement. Technically speaking, the National party has become a minority government.

Whether its coalition arrangements hold or its political fragmentation continues will be one thing that will determine whether an election is held before November 1996.

And recent opinion poll results indicate that when an election is held, no party would hold a majority in the new 120-seat parliament. National fares best with 37-40 per cent. Labour comes next with 25-28 per cent and the Alliance is close on its heels.

The two most likely coalition groupings are on the right or left. National, runs one theory, could tie up with the various right-wing breakaway parties, although personal friction between Mr Peters and Mr Jim Bolger, the prime minister, make a NZ First/National grouping less likely.

On the left, there has been some union pressure for Labour and the Alliance to do a deal – and Mr Jim Anderton, personally popular and restored as Alliance leader last month after taking time out following the suicide of his daughter, has made some conciliatory noises.

Sir Roger is cautious about the transition to the MMP system. "It's too early to tell. I think the problem is that there are huge risks in it . . . . But if it enables the political parties to shed people who do not share their basic philosophy, that would be quite a good thing."

INTERNATIONAL ECONOMIC INDICATORS: NATIONAL ACCOUNTS

Figures for GDP/GNP are in billions of European currency units (Ecu). The first breakdown is in current prices and the second shows growth rates in the constant price series.

■ UNITED STATES

CURRENT PRICES	Gross Domestic Product	Private Cons.	Private Invest.	Govt. Spend.	Net Exports
		as a % of GDP			
1985	5,298.1	66.0	17.7	19.1	−2.9
1986	4,339.9	66.8	16.8	19.5	−3.1
1987	3,933.8	67.2	16.5	19.4	−3.2
1988	4,141.1	67.3	16.2	18.7	−2.2
1989	4,766.1	67.1	15.8	18.6	−1.5
1990	4,351.6	67.8	14.6	18.9	−1.3
1991	4,620.1	68.2	13.0	19.2	−0.3
1992	4,646.3	68.7	13.1	18.7	−0.5
1993	5,419.3	69.0	13.9	18.1	−1.0
1994	5,683.1	68.7	15.3	17.4	−1.5
2nd qtr.1994	5,764.8	68.6	15.5	17.4	−1.5
3rd qtr.1994	5,552.5	68.6	15.5	17.5	−1.6
4th qtr.1994	5,586.5	68.6	15.6	17.2	−1.4
1st qtr.1995	5,530.9	68.6	15.9	17.1	−1.6

CONSTANT PRICES (% growth in)	GDP	Cons.	Invest.	Govt.	Exports
1985	3.2	4.4	−1.5	6.1	1.2
1986	2.9	3.6	−1.5	5.2	6.6
1987	3.1	2.8	1.9	3.0	10.5
1988	3.9	3.6	3.2	0.6	15.8
1989	2.5	1.9	1.4	2.0	11.9
1990	1.2	1.5	−4.7	3.1	8.2
1991	−0.6	−0.4	−8.4	1.2	6.3
1992	2.3	2.8	6.1	−0.7	6.7
1993	3.1	3.3	13.0	−0.8	4.1
1994	4.1	3.5	16.1	−0.8	9.0
2nd qtr.1994	4.1	3.4	17.9	−1.3	7.3
3rd qtr.1994	4.4	3.2	17.7	0.0	12.0
4th qtr.1994	4.1	3.5	14.7	−1.0	11.6
1st qtr.1995	4.0	2.8	14.0	−0.1	13.3

■ JAPAN

CURRENT PRICES	Gross National Product	Private Cons.	Total Invest.	Govt. Cons.	Net Exports
		as a % of GNP			
1985	1,780.2	58.7	28.0	9.5	3.7
1986	2,033.6	58.3	27.7	9.6	4.3
1987	2,102.2	58.4	28.4	9.4	3.8
1988	2,466.0	57.5	30.4	9.2	2.9
1989	2,625.4	57.3	31.5	9.1	2.1
1990	2,321.9	57.0	32.5	9.0	1.4
1991	2,729.4	56.1	32.3	9.1	2.5
1992	2,848.8	56.7	30.8	9.2	3.3
1993	3,609.2	57.6	29.7	9.5	3.2
1994	3,911.5	58.7	28.6	9.8	3.0
2nd qtr.1994	3,960.8	58.5	28.8	9.8	3.0
3rd qtr.1994	3,921.4	58.5	28.7	9.9	2.8
4th qtr.1994	3,850.9	59.1	28.3	9.7	2.9
1st qtr.1995					

CONSTANT PRICES (% growth in)	GNP	Cons.	Invest.	Govt.	Exports
1985	5.1	3.3	6.5	1.7	6.5
1986	2.7	3.4	4.3	4.5	−5.3
1987	4.3	4.2	8.2	0.4	4.6
1988	6.3	5.2	14.1	2.2	10.7
1989	4.8	4.3	9.6	2.0	15.1
1990	4.8	4.0	7.9	1.9	10.5
1991	4.3	2.2	4.5	1.8	5.0
1992	1.3	1.7	−2.6	2.7	2.7
1993	−0.2	1.0	−2.3	1.7	−1.1
1994	0.5	2.2	−1.7	2.9	3.3
2nd qtr.1994	0.4	2.1	−2.2	3.6	2.6
3rd qtr.1994	1.0	2.9	−1.3	2.5	5.7
4th qtr.1994	0.8	1.5	−0.3	2.6	8.0
1st qtr.1995					

■ GERMANY

CURRENT PRICES	Gross National Product	Private Cons.	Total Invest.	Govt. Cons.	Net Exports
		as a % of GNP			
1985	825.5	56.4	19.5	19.9	4.2
1986	911.1	55.0	19.5	19.7	5.8
1987	967.5	55.3	19.2	19.8	5.8
1988	1,015.6	54.7	20.0	19.6	5.8
1989	1,087.1	54.4	20.6	18.6	6.4
1990	1,193.9	53.9	21.3	18.1	6.7
1991	1,305.1	54.2	22.0	17.5	6.4
1992	1,394.3	54.5	20.7	17.9	6.9
1993	1,467.4	55.9	19.0	17.9	7.2
1994	1,533.1	55.8	18.5	17.7	7.0
2nd qtr.1994	1,524.0	55.5	19.4	17.5	7.6
3rd qtr.1994	1,550.0	55.8	20.0	17.6	6.6
4th qtr.1994	1,564.4	55.6	19.9	17.8	6.8
1st qtr.1995					

CONSTANT PRICES (% growth in)	GNP	Cons.	Invest.	Govt.	Exports
1985	2.2	1.8	−1.3	2.1	7.6
1986	2.3	3.5	3.7	2.5	0.0
1987	1.4	3.5	0.3	1.6	0.5
1988	3.5	2.4	7.7	2.1	5.6
1989	4.2	3.2	6.5	−1.6	12.0
1990	5.7	5.2	8.7	2.2	12.4
1991	4.9	5.7	6.7	0.3	11.0
1992	0.9	2.0	−4.2	4.0	3.8
1993	−2.3	0.2	−9.6	−1.1	−3.0
1994	1.7	0.8	5.9	1.1	6.3
2nd qtr.1994	1.6	1.1	2.5	0.8	7.8
3rd qtr.1994	1.5	0.3	7.3	0.9	6.0
4th qtr.1994	2.7	0.1	12.2	2.4	9.2
1st qtr.1995					

■ FRANCE

CURRENT PRICES	Gross Domestic Product	Private Cons.	Total Invest.	Govt. Cons.	Net Exports
		as a % of GDP			
1985	691.8	60.8	18.9	19.6	0.7
1986	746.1	60.2	19.6	19.2	1.0
1987	770.5	60.6	20.2	19.1	0.1
1988	815.2	59.8	21.4	18.7	0.1
1989	877.8	59.4	22.3	18.2	0.1
1990	940.6	59.3	22.5	18.2	0.0
1991	973.0	59.6	21.5	18.6	0.3
1992	1,024.6	59.8	19.8	19.1	1.3
1993	1,068.6	60.6	17.1	20.1	2.2
1994	1,124.0	60.1	17.9	19.8	2.2
2nd qtr.1994	1,112.8	60.2	17.8	19.8	2.2
3rd qtr.1994	1,136.8	60.1	18.0	19.7	2.2
4th qtr.1994	1,148.8	59.7	18.3	19.7	2.3
1st qtr.1995					

CONSTANT PRICES (% growth in)	GDP	Cons.	Invest.	Govt.	Exports
1985	1.9	2.4	2.8	2.3	1.9
1986	2.5	3.9	8.8	1.7	−1.4
1987	2.3	2.9	5.1	2.8	3.1
1988	4.5	3.3	9.8	3.4	8.1
1989	4.3	3.1	8.8	0.5	10.2
1990	2.5	2.7	3.4	2.1	5.4
1991	0.8	1.4	−3.1	2.8	4.1
1992	1.3	1.4	−4.7	3.4	4.9
1993	−1.5	0.2	−14.0	3.3	−0.4
1994	2.7	1.5	−9.4	1.0	5.8
2nd qtr.1994	2.5	1.5	6.4	1.1	7.5
3rd qtr.1994	3.2	2.0	14.2	0.7	3.3
4th qtr.1994	3.7	1.6	17.8	0.7	7.2
1st qtr.1995					

■ ITALY

CURRENT PRICES	Gross Domestic Product	Private Cons.	Total Invest.	Govt. Cons.	Net Exports
		as a % of GDP			
1985	561.8	62.6	22.5	16.7	−1.9
1986	615.7	62.2	20.9	16.5	0.4
1987	658.4	62.4	21.0	16.9	−0.3
1988	710.5	61.9	21.5	17.1	−0.5
1989	790.8	62.4	21.3	16.9	−0.6
1990	861.4	61.8	21.0	17.7	−0.4
1991	933.5	62.2	20.4	17.7	−0.4
1992	945.0	63.0	19.4	17.8	−0.3
1993	844.0	62.5	16.8	17.9	2.9
1994	859.9	62.8	17.0	17.3	2.9
2nd qtr.1994	872.4	63.0	16.5	17.4	3.0
3rd qtr.1994	866.4	62.5	17.6	17.2	2.8
4th qtr.1994	858.4	62.6	17.9	17.1	2.4
1st qtr.1995					

CONSTANT PRICES (% growth in)	GDP	Cons.	Invest.	Govt.	Exports
1985	2.6	3.0	1.7	3.4	3.2
1986	2.9	3.7	1.4	2.6	2.5
1987	3.1	4.2	4.6	3.4	4.7
1988	4.1	4.2	6.3	2.8	5.4
1989	2.9	3.5	2.3	0.8	8.8
1990	2.1	2.5	3.7	1.2	7.0
1991	1.2	2.7	−0.1	1.6	0.5
1992	0.7	1.1	−0.1	1.0	5.0
1993	−1.2	−2.5	−18.3	0.7	9.4
1994	2.2	1.6	4.4	0.0	10.9
2nd qtr.1994	1.6	1.8	−1.2	−0.3	10.9
3rd qtr.1994	3.8	2.2	11.3	0.3	12.7
4th qtr.1994	2.7	1.8	14.1	0.5	10.3
1st qtr.1995					

■ UNITED KINGDOM

CURRENT PRICES	Gross Domestic Product	Private Cons.	Total Invest.	Govt. Cons.	Net Exports
		as a % of GDP			
1985	606.6	60.9	17.2	21.1	0.9
1986	573.7	62.8	17.1	21.0	−0.9
1987	600.8	62.7	18.0	20.6	−1.3
1988	709.6	63.5	20.3	19.9	−3.7
1989	766.9	63.4	21.0	19.7	−4.1
1990	770.8	63.1	19.2	20.5	−2.7
1991	821.6	63.4	16.1	21.6	−1.1
1992	811.4	64.0	15.4	22.1	−1.5
1993	814.3	64.2	14.9	21.9	−1.3
1994	863.8	64.0	15.3	21.6	−0.9
2nd qtr.1994	860.2	64.0	15.2	21.8	−0.8
3rd qtr.1994	852.3	63.9	14.8	21.6	−0.3
4th qtr.1994	876.6	63.8	15.8	21.4	−1.0
1st qtr.1995	864.5	63.6	15.6	21.5	−0.6

CONSTANT PRICES (% growth in)	GDP	Cons.	Invest.	Govt.	Exports
1985	3.9	3.8	3.8	−0.1	6.0
1986	4.3	6.8	2.8	1.6	4.5
1987	4.8	5.3	10.7	1.0	5.8
1988	5.0	7.5	17.3	0.7	0.5
1989	2.2	3.2	3.6	1.4	4.7
1990	0.4	0.6	−7.4	2.5	5.0
1991	−2.0	−2.2	−12.3	2.6	−0.7
1992	−0.5	0.0	2.0	0.0	3.1
1993	2.3	2.7	1.9	1.0	3.3
1994	3.7	2.6	6.1	1.6	6.9
2nd qtr.1994	4.1	2.9	6.4	1.5	9.7
3rd qtr.1994	3.7	2.0	4.8	1.4	10.1
4th qtr.1994	3.8	2.0	8.1	1.5	10.9
1st qtr.1995	3.7	1.3	3.7	1.6	

Seasonally adjusted data used in all cases. GDP/GNP is broken down into private consumption expenditure, investment (the sum of gross fixed capital formation and the change in stocks), general government final consumption, and net exports (exports of goods and services minus imports of goods and services). The US includes investment by government in the government series rather than under investment. Quarterly GDP/GNP totals are annualised. The growth rates are the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The figures in the fifth column of each set of growth rates refer only to exports, rather than to net exports. Data supplied by Datastream and WEFA from national government sources.

Anti-terror bill stalled by politics

By Jurek Martin, US Editor, in Washington

The US Senate returned from a holiday recess yesterday with the counter-terrorism bill at the top of its agenda but still bedevilled by political and civil libertarian controversies.

President Bill Clinton offered his own proposals in the wake of the Oklahoma City bombing on April 19, in the expectation that Congress would act by the Memorial Day recess, which began 10 days ago. In a speech last week, he criticised the legislature for not having responded to his request for speedy resolution.

However, in a television interview, Senator Robert Dole, Senate majority leader, countered by blaming the Democrats for having offered a total of 67 amendments to the bill. With the Republicans having proposed 30, Mr Dole volunteered to limit his party's amendments if the president would press Democrats to contain theirs. Mr Clinton yesterday agreed there were "too many unnecessary amendments."

Mr Dole said he was prepared to back one Democratic amendment – requiring that the ordinary kind of fertiliser used in the Oklahoma bomb be "tagged" to make its source easier to trace. The chemical industry and some Republicans have opposed this on the grounds of additional cost, but the senator said he had "no problem" with the idea.

Even so, Democrats and civil libertarians have objected strongly to one Republican proposal – to limit to one the number of appeals that convicted criminals facing the death sentence may launch.

A similar proposal has already passed the House of Representatives.

There is also concern on the right – shared by the American Civil Liberties Union on the left – that some of the administration's suggestions to expand the scope of federal investigations infringe the protection of the Fourth Amendment to the constitution against the "unreasonable search and seizure" of private property.

The Senate had voted before the recess to deny the government an expanded wire-tapping authority, another source of concern. The administration had proposed letting the police move wiretaps on a suspect without being obliged to get a new court order on each occasion.

Also questioned are the rights of non-citizens suspected of involvement in terrorist activities and liable, under several proposals, to summary deportation. The use of the US military in domestic law enforcement, another administration idea, has attracted additional criticism.

US urged to cut immigration by a third

By Jurek Martin

Legal immigration to the US should be gradually reduced by as much as one third below current levels of about 830,000 a year, according to proposals by an advisory commission set up by Congress.

Priority should be given to clearing up the large backlog of residency applications from the immediate relatives of foreigners legally living in the US. But some visa preferences for siblings and children of US citizens should be abolished.

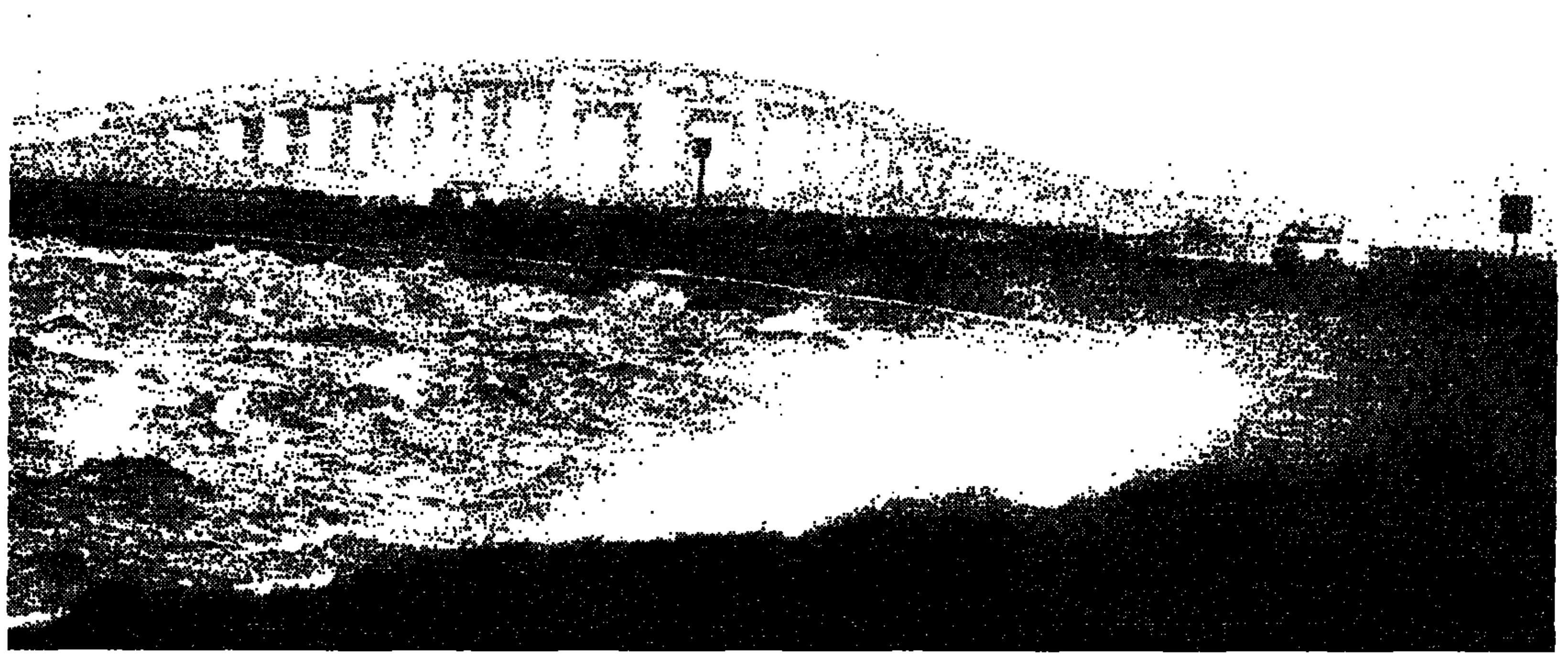
The proposals, by the Commission on Immigration Reform headed by Mrs Barbara Jordan, the former congresswoman, will not be made public for some weeks. They will prove an important ingredient in an increasingly heated debate over what level of immigration the US can sustain.

On Thursday, the Senate judiciary committee is to begin work on its immigration bill, initially focusing on the problem of illegal aliens. But Senator Alan Simpson, the chairman, is also seeking hard and lower ceilings on the number of refugees the US may admit in a given year, replacing the current flexible mechanism.

On the right wing, Mr Pat Buchanan, the Republican presidential candidate, and several advocacy groups are demanding a complete freeze on new legal immigration. But their libertarian bedfellows, like Congressman Dick Armey, the House majority leader, insist that the US should not close its doors to immigration.

Mrs Jordan's commission has already attracted controversy by proposing last year a national employment identity card, designed to make it more difficult for illegal immigrants to find work in the US. Its proposals seem broadly in line with Mr Simpson's ideas. He has recommended a 25 per cent reduction in legal immigration over the next five years on the grounds that current levels are more than can be "comfortably absorbed."

But the overall numbers are complicated by the special allocations granted to those wanting to leave certain countries, such as Russia (under the Lautenberg amendment covering Jewish emigration), Armenia and Ireland, all with powerful US lobbies.



Hurricane Allison buffeted the Panhandle region of north-western Florida with 75 mph winds yesterday (see Reuter picture above). It whipped high tides into a storm surge that flooded streets and marinas, and spawned tornadoes, agencies report from Florida.

Water rose eight feet within 90 minutes after dawn as the surge hit the coast, flooding several houses and at least one restaurant in Wakulla County, including the town of Shell Point, south of Tallahassee.

Allison has since been downgraded from a hurricane to a tropical storm but, having struck in the first week of June, it was the earliest hurricane to hit Florida in decades, said forecasters at the US National Hurricane Centre.

Governor Lawton Chiles of Florida has declared a state of emergency along the north-western and central Gulf Coast areas of the state.

Uruguay set to cut cost of pensions

By David Pilling in Montevideo

Uruguay was yesterday set to send controversial social security legislation to parliament, aiming to cut the cost of one of South America's most generous pensions systems.

The legislation, certain to be opposed by the left-wing Encuentro Progresista alliance, which has a third of the seats in Congress, has been drafted in response to pensions costs risen from the equivalent of 10 per cent of gross domestic product in 1990 to 15 per cent today.

Four attempts have been made to reform the pensions system in the past decade, but they were derailed by public opposition and factional politics.

Mr Ariel Davrieux, director of budget and planning and one of the architects of the bill, said he believed reform stood a good chance. He pointed to the relative solidity of the coalition government, formed by the Colorado party of President Julio Maria Sanguinetti and the Blanco party. Together, these have 65 per cent of Congress seats.

One western diplomat said there was a growing consensus that the current system was unsustainable. A combination of high life expectancy, youth emigration and a low retirement age means that, for every three Uruguayan workers, there are two pensioners.

The new bill, due to be approved by the council of ministers late yesterday, would change Uruguay's pay-as-you-earn system to a mixture in which higher earners would take out a personal savings plans. These, which would amass individual savings rather than pay current pensioners, would be administered by a mixture of public and private companies.

New legislation would also attempt to lower high levels of evasion and under-declaration of wages, while state pensions would only be paid to people who could prove they had worked 35 years.

Resurgent Tories call for 'common sense revolution' in Ontario poll

By Bernard Simon in Toronto

Ontario, Canada's wealthiest province, may be about to take a sharp turn to the right in elections this Thursday.

If the latest opinion polls are correct, the Progressive Conservative party will score a surprise victory over the Liberals, who were far ahead when the election was called five weeks ago. The left-of-centre New Democrats (NDP), who have held office since 1990, trail far behind.

The Conservatives' leader, Mr Mike Harris, has promised a "common sense revolution" which, if implemented, would improve Ontario's investment climate but might erode its reputation as among the most politically benign of Canada's 10 provinces.

Ontario accounts for about a third of Canada's population. It contributes 40 per cent of gross domestic product and half total exports, thanks to its diversified industrial base.

But the economic outlook is clouded by a decade of rising government deficits, to the point where the province, with an accumulated debt of close to C$100bn (£45.5bn), is one of the biggest non-sovereign borrowers on global capital markets.

Mr Harris argues: "It's time for government to make the same types of changes all of us have had to make in our own families and in our jobs."

Mr Harris has promised to cut income tax rates by 30 per cent, but to balance the provincial budget within five years. Public spending – excluding healthcare, education and law enforcement – would be slashed by 20 per cent by cutting 13,000 civil-service jobs and trimming welfare benefits.

The Conservatives would also privatise the non-nuclear assets of Ontario Hydro, the province's power utility; and the Liquor Control Board of Ontario, the world's biggest alcoholic drinks retailer.

Pledges to reform the welfare system and roll back the NDP government's affirmative action and pro-union labour policies have struck a responsive chord among voters.

Mrs Lyn McLeod, the Liberals' leader, accuses the Tories of offering policies based on "fear and resentment," and has questioned the arithmetic behind their promises.

However, after an unfocussed campaign, polls suggest the best the Liberals can hope for now is a minority government supported by the NDP.

Mr Harris, who ran his family's ski resort in northern Ontario before entering politics, has so far shown little interest in emulating previous Ontario premiers as an influential broker in national affairs.

However, a Conservative revival in Ontario could do wonders for the party's federal wing, which governed Canada for nine years from 1984 but was left with only two MPs in the 1993 general election. A reinvigorated Tory party would be especially worrying for the Reform party, which siphoned off most of the right-of-centre vote in 1993.

Aircraft orders 'will stay low until 2004'

By Michael Skapinker, Aerospace Correspondent

Aircraft orders will remain subdued until well into the next century, according to a market forecast issued yesterday by Boeing of the US.

Boeing said that while previous improvements in the world economy had resulted in a surge in aircraft orders 12 to 18 months later, this had not happened during the current recovery.

This was because, unlike the last two recessions, countries had experienced a downturn at different times and were recovering at different rates.

Airlines already have 1,800 aircraft on order, twice as many as at the same time in the previous two economic cycles. Between 250 and 350 aircraft are currently unused around the world and may be returned to service. Airlines are also expected to use profits to repair their balance sheets before ordering new aircraft.

Boeing said that 15,400 aircraft, valued at $1,000bn, would be ordered over the next 20 years. Of these, 10,000 will be new aircraft designed to accommodate an expected average 5.1 per cent annual air traffic growth. A further 5,400 aircraft are expected to be purchased as replacements for those taken out of service.

Over the next five years, however, airlines are expected to spend less on aircraft than they did from 1990 to 1994. Expected annual spending between 1995 and 1999 will average $37bn, Boeing said. This compares with $41bn between 1990 and 1994.

In the period 2000 to 2004, average annual spending will be $45bn. Expenditure on aircraft will only pick up substantially between 2004 and 2014 when average aircraft expenditure will be $63bn.

● Boeing and McDonnell Douglas declined to comment yesterday on reports that Saudia Arabia Airlines has agreed to buy 22 Boeing 777s and five Boeing 747-400s, along with 29 of McDonnell Douglas's MD-90s and four freighter versions of the MD-11.

See feature, Editorial page

Brittan anxious over US-Japan trade deals

By Michiyo Nakamoto in Tokyo

Sir Leon Brittan, the European trade commissioner, yesterday warned the US and Japan not to arrive at any trade deals which would leave Europe out in the cold.

"My message to Japan and the US is, please use that [the multilateral free trade] system and make it clear that you abide by that system," Sir Leon said in Tokyo. "And if you want Europe's sympathy, don't make any deals at our expense," he added.

He reiterated Brussels' criticism of the $5.9bn in punitive tariffs on Japanese luxury car imports which Washington threatens to make final if the US and Japan fail to reach agreement on cars by June 28.

Washington announced the sanctions on May 16 after nearly two years of talks failed to resolve a dispute over better foreign access to Japan's car and car parts markets.

Japan maintains that the sanctions violated world trade rules and has sought urgent talks with Washington under the auspices of the World Trade Organisation in Geneva.

Washington is pressing Japanese carmakers to buy more US car parts, but the EU fears such plans would be at the expense of European parts makers' sales.

Sir Leon, however, urged Tokyo to press ahead with deregulation, or risk prompting Europe to adopt a tougher, less co-operative approach to Japanese markets.

Sir Leon also renewed his call to Tokyo to set a target of reducing the country's persistently high current account surplus to 2 per cent of gross domestic product.

The suggestion to set a target for reducing Japan's trade surplus echoes the views of some conservative members of the country's ruling coalition as well as those of Japanese business leaders concerned that a clear commitment to reducing the surplus is necessary to halt the rise of the yen.

Mr Masayoshi Takemura, the finance minister, said the Japanese government was cautious about setting numerical targets. At the end of the year to March, the surplus is expected to have fallen to about 2.7 per cent of GDP, though no official figures have been published yet, and the government forecasts a reduction in the surplus to 2.4 per cent of GDP in the current year, a Finance Ministry official added.

Mr Takemura expressed regret about the EU's plans to take Japan to the World Trade Organisation over its liquor tax regime, which the EU claims discriminates against certain drinks. Japan has amended its liquor taxes twice since a Gatt panel ruled in 1987 that Japanese taxes discriminated against whisky and certain white spirits, Mr Takemura said.

EU trade commissioner Sir Leon Brittan (left) meets Japanese trade minister Ryutaro Hashimoto before yesterday's talks Reuter

Financial markets plea

The Council of the European Business Community yesterday urged Japan to improve foreign access to its financial markets, in a report analysing the country's banking, securities, pension fund and insurance markets, Emiko Terazono writes from Tokyo.

The report is the EBC's first comprehensive report outlining the current environment and problems facing foreign financial institutions in Japan, and presents a series of recommendations to the Japanese government.

The report coincides with mounting concern by Japanese financial authorities over declining interest in Tokyo as an international financial market. The EBC comments also follow a rise in delisting of foreign companies from the Tokyo Stock Exchange and the government's mishandling of the Japan Tobacco privatisation last year.

The financial sector in Japan is highly regulated and while the banking, securities, pension and insurance markets have grown to be among the world's largest, the country's Ministry of Finance and Bank of Japan have been slow to respond to the calls for deregulation.

The EBC urged a more transparent regulatory environment in the banking sector, a simplifying of reporting requirements for financial authorities and flexible approval for new financial products, including securitised assets.

In the securities sector, the lack of access by foreign securities houses to the underwriting business has become an issue for concern, while restrictions on non-Japanese companies in privatisation issues demonstrates a lack of reciprocity by the Japanese government, the report says.

The council called for the freeing of the country's $1,700bn pension market to asset management companies and the easing of rigid regulations in the life and non-life insurance industries. The EBC also recommended changes in the tax and accounting system to promote more foreign direct investment in Japan and the lifting of restrictive provisions on practices of foreign lawyers to help foreign investors in need of legal support.

Philippines announces two-airport plan

By Edward Luce in Manila

Manila airport and Clark air base are to be developed in tandem to become the country's joint premier airports, the Philippine government said yesterday.

In a move which surprised much of the Philippine business community, President Fidel Ramos said the joint development would create a "win win" situation for both projects.

The modernisation of the two airports – the Ninoy Aquino International Airport (NAIA) in Manila and Clark air base, which was the US air force base in the Philippines until 1992 – would be financed under the country's showcase build-operate-transfer law through foreign and local consortia, the president said.

"I would like to emphasise that NAIA and Clark are not competitors," said Mr Ramos. "In fact we are now working very hard to eventually put the two together under one management so that there will be smooth co-ordination."

Clark would initially focus on cargo traffic while the upgraded NAIA would remain the country's passenger hub until at least 2015.

The bidding to construct the $300m third terminal at the NAIA, which would form the bulk of the modernisation work in Manila, commenced last year. An informal tender by the British Airports Authority for the terminal is regarded as a strong contender.

The BAA bid, submitted as part of a joint proposal with the Asia Emerging Dragons (a group of six Filipino-Chinese businessmen), would be the privatised UK group's first overseas airport contract. Singapore Changi Airports Enterprises has been provisionally awarded the project to design the terminal.

A $1bn bid by Ital-Thai, the Bangkok-based construction group, to convert Clark from a military air base into a passenger and cargo venture ran into controversy earlier this year after allegations of graft.

Ancillary contracts, such as a $600m road between Manila and Clark which has been provisionally awarded to a Spanish consortium, are expected to go ahead after the airport contracts have been awarded.

A third international airport opened at the former US naval base in Subic Bay Freeport on April 30. Federal Express, the US delivery service, has chosen Subic as its Asian headquarters.

BAA results, UK Company News page

General Motors of the US is planning to return to the Philippines with a $1bn car assembly and parts manufacturing plant, Reuter reports from Manila.

Mr Rosario Estacio, director of the Board of Investments, said the US car company had submitted a proposal to build a plant at Subic Bay Freeport, a former US naval base north of Manila. The plant would assemble 150,000 cars a year and produce parts, including engines and transmissions, for export around Asia.

He quoted a senior manager as saying that GM also plans to re-enter the domestic market, which it abandoned in 1984.

The Philippine car and truck market is at present almost completely dominated by Japanese manufacturers.

WORLD TRADE NEWS DIGEST

India warned over power deal

The US and Britain yesterday warned New Delhi that foreign investment could be jeopardised if Maharashtra state scrapped a power agreement with an American consortium led by Enron. The US Department of Energy warned that failure to honour agreements to set up the $920m Dabhol power project in Maharashtra could affect financing for other private power projects. The Enron project was cleared by the Congress government headed by Mr Sharad Pawar, and is under review by a ministerial committee after a new Hindu nationalist government won state elections in March. The committee will present its findings to the state cabinet within a month. The project has become a test case for future foreign investment in India's infrastructure sector.

The US statement follows a stiff warning from Mr Kenneth Clarke, UK chancellor, that a review of the project would adversely affect foreign investment in Maharashtra and the rest of the country. Mr Clarke is currently heading a business delegation to India.

Mr Francis Dore, chairman of the Franco-Indian Chamber of Commerce, said yesterday that if agreed projects were reopened every time a different political party came to power, it would send the wrong signal to foreign investors. Mr Dore said the French business community was also apprehensive about action to curb imports. *Shiraz Sidhva, New Delhi*

Polish glass levy urged

Pilkington, the UK glass maker, is pressing the Polish government to introduce a 15 per cent tariff on imports of float glass from Hungary and the Czech Republic.

The Polish market is around 300,000 tons, with imports of around 80,000 tons a year from the Czech republic, Germany and Sweden.

Pilkington is bringing Poland's first 140,000 ton-a-year float glass production line on stream in September and tariffs would help the venture establish its domestic production. The production facility cost $150m and was financed through loans from the European Bank for Reconstruction and Development, the International Finance Corporation and a consortium of Polish banks led by the Polish Development Bank.

St Gobain, the French glass producer, has embarked on the construction of a greenfield DM220m ($153m) float glass works in Silesia. It will have an annual capacity of 150,000 tons and is expected to come on stream at the end of 1996 to compete with Pilkington. *Christopher Bobinski, Warsaw*

Contracts and ventures

■ Marubeni and Hitachi Denshi of Japan won a HK$110.5m ($14.3m) contract for a mobile radio system for Hong Kong's new airport and Siemens of Germany received a HK$76.8m telephone system contract. First Pacific's Guardforce won a $51.7m contract for a closed-circuit television system and a HK$56.6m access control and detection contract.

A HK$85.1m building management system and supervisory control and data acquisition contract was awarded to Control Systems International and Allen-Bradley (Hong Kong). A contract for voice and data cable valued at HK$126.8m went to International Computers of the UK. A HK$44.2m passenger terminal public address system contract was awarded to Hepburn Systems of Hong Kong. *Reuter, Hong Kong*

■ Rolls-Royce of the UK has won a contract worth £33m for an electricity substation in Jordan. The substation is to be built by the group's Reyrolle unit at the port of Aqaba and will be linked to a new thermal power station at the same site. *Reuter, London*

NEWS: UK

Minister to reject censure by ILO

Government may quit labour body

By Robert Taylor, Employment Editor

The UK government may decide to pull out of the Geneva-based International Labour Organisation if it is denounced for its decision 11 years ago to outlaw trade unionism from its communications intelligence centre (GCHQ) in Cheltenham, western England.

Mr Michael Portillo, employment secretary, is believed to have secured the strong support of the prime minister, Mr John Major, for his decision to adopt a tough stance against any move at the ILO to condemn the UK.

He believes the ILO, to which the UK contributes £8m ($12.6m) annually, is an expensive body which has spent too much time in recent years criticising Britain's industrial relations policies. Mr Portillo also questions why public funds should be used to pay for UK trade union leaders to attend the *ILO* summer conference.

The ILO's annual conference which opens today in Geneva is expected to discuss the UK government's handling of the GCHQ issue. Delegates may decide to reprimand the UK for what the ILO legal experts believe to be a breach of the ILO convention 87 which protects the right of workers to join trade unions. The decision to ban trade unions at GCHQ was taken by Mrs Margaret Thatcher when prime minister in 1984.

The ILO punishment of the UK could take the form of a "special paragraph" in the conference conclusions, a move normally used as an ultimate sanction against military dictatorships.

A founder member of the ILO in 1919, the UK has never been condemned before for a breach of international labour standards. Such a move would be a severe embarrassment to the British government. In its report to the conference the ILO committee of legal experts which has been dealing with the GCHQ case says the workers there "should be guaranteed the right to establish and to join organisations of their own choosing".

It also urges the UK government "to take steps to resume discussions with the unions with the aim of finding a satisfactory solution to all parties concerned".

The ILO committee is also critical of the government's provision in its 1992 legislation that prevents trade unions from disciplining members who refuse to participate in lawful strikes or other industrial protests. It says that the UK government should "refrain from any interference which would restrict the right of workers' organisations to draw up their contributions and rules freely".

The ILO committee says the UK unions should be protected in sympathy strikes. It also calls on changes in UK labour laws to allow workers to be reinstated if they are singled out for dismissal after being involved in a lawful strike.

"The continuing condemnation of the UK government over the GCHQ ban is embarrassing for Conservative ministers", said Mr Denis MacShane, Labour MP for Rotherham. "But to move towards preparing the ground for a UK withdrawal from the ILO will shock the world of employers who are strongly represented at the ILO and on its committees".

There has been mounting concern over the past few days over a number of questions about the ILO sent to Mr Portillo by Mr Alan Duncan, a Conservative MP. He asks how much the UK pays to the ILO, what impact ILO membership has made on UK unemployment and what is the purpose of its annual conference, which lasts three weeks.

Involvement of Ian Maxwell 'minimal'

John Mason, Law Courts Correspondent

Ian Maxwell and his wife leaving the court yesterday

Mr Ian Maxwell is being prosecuted for his role in the alleged Maxwell pension fund fraud only because he is the son of publisher Robert Maxwell, a jury at the Old Bailey (London's central criminal court) was told yesterday.

The involvement of Mr Ian Maxwell in events was minimal, Mr Edmund Lawson, his advocate, told the court. He had no experience of corporate finance and relied entirely on the advice of others including his brother Mr Kevin Maxwell and professional advisers. "He finds himself in the dock not because of what he did but because of what he is – a Maxwell and his father's son," Mr Lawson said.

Mr Ian Maxwell is one of four defendants charged with conspiracy to defraud over the alleged misuse of Maxwell pension funds assets to secure credit for the debt-laden Maxwell private companies.

It is alleged that after his father's death on November 5 1991, he conspired with Mr Kevin Maxwell; Mr Larry Trachtenberg, a former adviser to Robert Maxwell; and Mr Robert Bunn, a former deputy managing director of the Robert Maxwell Group; to defraud the pension funds by pledging shares worth £22m in Teva Pharmaceutical Ltd, an *Israeli* company, to obtain credit from National Westminster Bank.

Mr Kevin Maxwell is also accused of conspiring with Robert Maxwell to defraud the pension funds over their dealing in £100m-worth of shares in Scitex, another Israeli company.

All four defendants deny the charges against them.

At the centre of Mr Ian Maxwell's defence was the fact that he was not a corporate financier, Mr Lawson said. Lacking financial knowledge, he was "entirely reliant" upon those around him including Mr Kevin Maxwell, other executives and professional advisers.

The Teva shares were pledged in the "commercial chaos" that followed the death of Robert Maxwell, he went on.

"A thousand things had to be done. In Ian Maxwell's case, one of the most important things had nothing to do with money. It was making arrangements for his father's funeral."

Mr Alan Suckling, prosecuting for the Serious Fraud Office, then called Mr Trevor Cook, a director and administrator of Bishopsgate Investment Management (BIM) which handled the bulk of the Maxwell pension funds.

In July 1991, BIM agreed to sell some of its Scitex shares through the Robert Maxwell Group (RMG). However, BIM was to remain the beneficial owner until the sale was completed when the funds would be paid, Mr Cook said. The shares were finally sold in October 1991, but BIM was never paid, the court heard.

Questioned about the Teva shares, Mr Cook admitted he had been unaware at the time of some of the transactions in which they were used.

By November 15, Mr Cook had discovered that BIM was owed £296m by RMG and began a complete review of the assets of the Common Investment Fund.

Mr Cook told how he asked other BIM directors about the whereabouts of the Teva shares. None of them gave him any information apart from Mr Kevin Maxwell who told him they were with an Israeli law firm. Mr Cook's staff checked twice with the law firm and were told the shares were no longer there.

The trial will continue today.

Paper chase delays arms-for-Iraq inquiry

By Jimmy Burns in London

Officials of the Scott arms-for-Iraq inquiry yesterday confirmed that publication is to be further delayed, refuelling concern about the conduct and direction of this politically sensitive investigation.

The inquiry into defence-related exports to Iraq in the 1980s, and alleged government collusion in the breach of an embargo, was launched in November 1992. It was due to have been published last autumn; that date was later revised to next month.

The investigation has involved an unprecedented paper chase in Whitehall to establish who took decisions and the basis for them.

Mr Christopher Muttukumaru, secretary to the inquiry, said yesterday: "The papers came in boxes, in triple-sealed envelopes and even in sacks marked 'HM Diplomatic Service'. And once the paper mountain had built up (some 200,000 pages of documents), there began the process of sifting and analysing the material." The trail led to a "labyrinthine complex of committees and subcommittees", involving four main departments: the Ministry of Defence, the Department of Trade and Industry, the Foreign Office, and Customs and Excise; and four intelligence organisations – SIS (MI6), MI5, GCHQ and Defence Intelligence – each with a different story to tell.

The inquiry was promised full access to all relevant material, but several key documents were not brought to the judge's attention in the early months. The inquiry has had to press for disclosure following a painstaking process of cross-checking and questioning of witnesses.

"In one case an SIS (intelligence) witness had left an important pile of papers in the corner of the room. He later left the service. The papers were not, therefore, coralled as part of the initial trawl, and we were not sent them until 20 months after the inquiry began," recalls Mr Muttukumaru.

He said yesterday the report would not be published before September, and it would come out "whether parliament is sitting or not". Parliament does not return from summer recess until late October.

The refusal of Sir Richard Scott, the investigating judge, to be drawn on a precise publication date has satisfied neither the government nor the opposition.

Senior members of the governing Conservative party fear that the report could be published close to the party's annual conference. the Labour party fears that Sir Richard has become a hostage to Whitehall manoeuvrings, and that his report has been "kicked into the long grass of a recess".

These criticisms come against the background of a whispering campaign against Sir Richard by senior Tories and Whitehall officials. The campaign surfaced last year when Lord Howe, former deputy prime minister, accused Sir Richard of acting as "detective, inquisitor, advocate and judge".

Lord Howe has subsequently expanded his attacks, arguing that the judge has brought difficulties on himself by not seeking early expert advice on the conduct of government and legislation, as well as not allowing witnesses the right to legal representation while under cross-examination in the early part of the hearings.

Last month Sir Richard used a speech to the Chancery Bar Association to state that it would be "wholly inimical to, perhaps destructive of" the efficient conduct of his inquiry for witnesses to be given the right to cross-examination. Public servants should expect to undergo "public scrutiny and accountability".

The judge has rejected Lord Howe's suggestion that the essential unfairness and inefficiency of the inquiry has been brought about by an insufficient level of participation by lawyers and the absence of "expert" lay assessors.

Sir Richard has become weary of what he sees as attempts at obfuscation by some witnesses. In his lecture last month he delivered a thinly veiled swipe at one former minister when referring to the "tediously lengthy correspondence" he had with his lawyers.

Mr Robin Cook, the opposition Labour party's shadow foreign secretary, yesterday accused the prime minister of failing to defend the Scott inquiry from a "whispering campaign" in Whitehall designed to discredit its findings, James Blitz writes. Mr Cook said he had written to Mr John Major last month asking him to express confidence in Sir Richard, amid signs that the judge had been obliged to respond to criticisms of the way his inquiry was being conducted.

In his reply, Mr Major said the government was aware of concerns expressed by some witnesses over aspects of the inquiry. Instead of directly stating his confidence in the judge, the prime minister wrote: "It is for Sir Richard to determine how to respond to these concerns. The government does not expect to reach a view on Sir Richard Scott's inquiry until it has been completed."

High-tech hope of Wales calls in receiver

By Roland Adburgham in Cardiff

Race Electronics, one of the UK's biggest contract electronic manufacturers with US, Japanese and European companies among its customers, went into administrative receivership yesterday.

The private company, based near Cardiff in south Wales, had been regarded as an example of how a British business could successfully compete internationally in a high technology industry. It assembles printed circuit boards under contract. Race has a workforce of 600, mostly women, and an annual turnover of about £30m ($47.10m).

It is wholly owned by Gooding Group, headed by the Welsh entrepreneur Mr Alfred Gooding. He holds 56 per cent of Gooding Group, with two other shareholders, C.Itoh, the Japanese trading house, and CitiCorp Venture Capital.

Race, which Gooding bought in the mid 1980s, increased its workforce of 75 to 1,500. But in 1992 it was hit by losses of £4.8m, including a bad debt of £3.5m from a US customer.

Mr Gooding said yesterday: "This whole damn industry went on a whacking downward trend in the recession and the technology changes meant you didn't need as many people for the same amount of work."

Since 1992, the workforce had been reduced by 800 and three factories closed. Last November, another Welsh factory employing 230 people was sold in a management buy-out.

Mr Gooding said he shared the view of the other shareholders and Barclays, the company's bankers, not to invest further capital.

Mr Gooding's other interests are unaffected, including Goooding Consumer Electronics, which manufactures televisions in France.

In April, Gooding Consumer Electronics sold majority stakes in three satellite television businesses in the UK to Grundig of Germany.

Scottish expansion, Page 10

Cinema for premieres of British films will compete with launches from Hollywood

Government to boost film industry

By Raymond Snoddy in London

Mr Stephen Dorrell, the senior minister responsible for the arts and media, is expected today to support pleas for a new central London cinema where British films can be premiered.

His support will be part of a modest package of measures designed to help the British film industry. It could lead to the creation of a big London showcase for the launch of British films, which is now often difficult because of the dominance of Hollywood productions.

The new cinema would be run by a trust. A number of organisations such as the BBC have been approached to see whether they would take part.

Pact, the organisation representing the £700m-a-year independent production sector, is preparing legal cases against the publicly funded BBC to present to the Office of Fair Trading and the European Commission. Pact – the Producers' Alliance for Cinema and Television – believes the BBC is in breach of competition rules in its trading relations with the independent sector. It says it is running out of patience with the BBC after 18 months of negotiations to secure equal terms to those offered by commercial television companies. When the companies commission a programme from an independent producer, they usually buy the right to broadcast the programme twice within five years. The BBC usually buys all rights to a production and then exploits them internationally.

although the proposals for the structure have not yet been completed. The proposal is due to be unveiled today with other plans designed to help the British film industry.

The industry is unlikely to win what it wants most. That is a cut in the withholding tax on 25 per cent of the earnings of non-British actors working in the UK and the ability to offset more production expenditure against tax when the money is spent.

These were among concessions proposed when the House of Commons heritage committee reported on the British film industry in April. Both are issues for the Treasury to decide.

Mr Dorrell is likely to suggest that he sees merits in both issues and commend them to the Treasury for serious consideration. In the past Mr Dorrell, a former Treasury minister has been opposed to special concessions for the film industry.

He is expected today to draw the attention of the City of London to the importance of the investment opportunities presented by the expanding audiovisual industry. The main announcement for the film industry will be the creation of a mechanism that will allow National Lottery funds to be used to support commercial British films. As a result of today's announcement the Arts Council is expected to be free to allocate significant lottery funds to the film industry.

There is also likely to be an easing of the restrictions on employing actors from outside the UK. Although Mr Dorrell's announcements are likely to fall well short of the film industry's best hopes they are likely to be welcomed as the most positive to emerge the British government for some time.

The industry now hopes it can look forward to November's national Budget announcement with a realistic hope that the tax position will be improved so that the UK can compete better with countries which offer a wide range of incentives to attract the international film industry.

State widens search for corporate bidders

By Andrew Adonis, Public Policy Editor

Barely a week passes without the government trumpeting some new advance in its mission to hand responsibility for providing government services to the private sector.

Prisons, hospitals, roads, railways, information technology – all have featured. Even the Treasury's own citadel on Whitehall may be put in private hands by Mr Kenneth Clarke, the chancellor of the exchequer. He is looking for a company which will pay for modernising the dilapidated Victorian building and then lease office space back to the government.

Few fields of government responsibility are considered no-go areas for the private sector. Not even the police are immune. Their job of ferrying prisoners between jails and the courts is being progressively transferred to private security companies.

Last week alone saw the announcement of private contracts for "core" government work worth about £1bn ($1.6bn) in total. The Prison Service awarded contracts to consortia headed by Group 4 and Securicor to design, construct and run two new prisons. The Department of Social Security awarded a string of information technology "outsourcing" contracts to three computer services companies. They will take over operation of the department's four area computer centres, including the several thousand staff employed in them.

These contracts followed hard on the heels of a £150m seven-year deal between the DSS and Andersen Consulting for the development and operation of the department's new National Insurance Recording Computer System. Many of these contracts are being pursued under the government's "private finance initiative". Mr Clarke forecasts that PFI contracts totalling £6bn will be signed this year from a list of about 600 potential projects. He said: "I foresee that, before many years, private finance will be the usual way of meeting the government's capital spending requirements."

> 'Before many years, private finance will be the usual way of meeting the government's capital spending requirements'

Two important features of the PFI are far from novel. They are the search for private-sector bids to provide capital assets for the government, and contracting out of the provision of state services to the private sector.

Private companies, under contract, have long provided central and local government with everything from rubbish collection to state banquets. What makes the PFI distinct is the decision to make a private-finance test the first recourse for almost all government capital projects, and a determination to contract out the provision of assets and the management of the service – such as a prison or the fast Channel tunnel rail link to London – as a single package.

Supporters of the PFI claim that this offers the government greater value for money. They say it draws more heavily than before on private sector innovation and competition and it enables ministers to transfer expensive risks – such as demand for services – from the taxpayer to the private sector.

Sir Alastair Morton, who heads the Private Finance Panel, a ginger group established by the Treasury to accelerate the initiative, claims that this gives the private sector a significant role in sectors not reached by the great industrial privatisations of the Thatcher decade.

Many academic commentators are critical of the PFI, claiming that the transfer of risk is often marginal, and that in cases such as road construction the taxpayer could end up paying more through the PFI than through conventional funding routes.

However, *ministers insist* that real savings are on offer. They cite the long overrun involved in public sector *capital projects and the large* reductions in the cost of service provision which the private sector is able to offer.

Mr Derek Lewis, director-general of the Prison Service, estimates that over the lifetime of their contracts, the two new PFI prisons could cost the government more than 25 per cent less than proceeding with two new public sector prisons. He highlights the transfer of risks such as prison design and the unavailability of places because of riots, and the greater efficiency of private operators in providing custody services.

The opposition Labour party endorses the PFI. Although it attacks the decline in public investment over the past 15 years and objects to private-sector involvement in such areas as the management of prisons, its criticisms are otherwise muted.

Mr Gordon Brown, the party's shadow chancellor, told an investment conference last week: "The government's mistake is to see the PFI as an opportunity to abdicate government responsibility for modernising the infrastructure rather than as a vehicle for a partnership between public and private sectors to increase overall levels of investment."

He proposed a new "task-force" to broker new public/private agreements. But he was careful to state that this would be based around the existing Private Finance Panel chaired by Sir Alastair.

So there is a broad political consensus behind the PFI and its philosophy. The big question is whether in important areas such as transport the private sector is prepared to take on significant new risks for prices that will make the PFI worthwhile to the taxpayer.

UK NEWS DIGEST

Drivers say best cars are German

Only 13 per cent of Britons think the UK makes the world's best cars, according to a survey by Market Opinion Research, a US-based research and consulting group. By contrast, 54 per cent of respondents said they thought the best cars were made in Germany, followed by 17 per cent voting for Japan.

The survey showed that BMW, the Munich-based cars group which now owns Rover, Britain's last indigenous volume car manufacturer, was seen as the world's most successful carmaker. However, Mercedes-Benz, BMW's arch-rival, was ranked higher in terms of quality. Some 33 per cent of those asked gave Mercedes precedence for quality, while 21 per cent placed BMW first.

In spite of the accolades for the German manufacturers, only 17 per cent of respondents said they were completely satisfied with their cars, while 4 per cent said they were either somewhat, or very, dissatisfied with their vehicles.

Haig Simonian, Motor Industry Correspondent

Trade union leader renounces 'old ways'

Trade unions will not claim an "inside track" in their dealings with a future Labour government, Mr John Edmonds, general secretary of the GMB union, told its annual congress. He said unions had to face the fact that there would be no attempt to put the clock back to the 1970s. "We should admit that the old ways did not serve us well," he said. "The government tried to use the trade unions to keep down wages, and the trade unions pretended cosying up to the government would produce special favours. It was not an honest relationship and it did not work". The Labour party was last in power from 1974 to 1979 when it was defeated by the Conservatives led by Mrs Margaret Thatcher. Mr Edmonds said he had no reason to quarrel with Mr Tony Blair, the present Labour leader, when he promised the unions fairness but not favours. "After 16 years of hostility and persecution, trade unionists would welcome a bit of fairness."

Andrew Bolger, Employment Correspondent

Number of business failures rises unexpectedly

The number of business failures in Britain jumped unexpectedly in the first quarter of the year as company profits were squeezed by rising raw material costs, industry figures showed. The figures came after several quarters of steadily falling insolvencies and provided a further hint of a slight slowdown in the business recovery.

Nevertheless, the Trade Indemnity group, which collected the data, pointed out that the level of insolvencies was still lower last year in most regions. Trade Indemnity, a credit risk management group, said there were 840 business failures in the first quarter of 1995 in Britain. There were 871 in the last quarter of 1994 and 1037 in the first quarter of 1994.

Gillian Tett, Economics Staff

Many more trucks use Channel tunnel

Eurotunnel's freight shuttles carried more than 28,000 road trucks through the Channel tunnel between England and France last month. That made Eurotunnel, operator of the tunnel, market leader on the Dover-Calais route with 35 per cent of the heavy goods vehicle market, the company said yesterday. The number of trucks carried rose by 25 per cent from the April figure, bringing the total in 1995 to 113,823. A daily traffic record of 1,351 trucks was set on May 23.

Eurotunnel said 99 per cent of trucks were able to board the first shuttle departing from the terminal. The company operates a turn-up-and-go service with customers able to book a day of departure but not a specific train. The number of long-distance freight trains operated by British Rail and the French and Belgian railways also increased, to 465 trains in May from 404 in April.

Charles Batchelor, Transport Correspondent

Maker of circuit boards to expand in Scotland

Prestwick Circuits, a Scottish manufacturer of printed circuit boards, is investing £5m ($7.85m) on expanding production over the next two years. It expects to increase sales by up to 50 per cent over the next 12 months from the current level of about £30m and to add 120 jobs to the existing 600.

The company, which is quoted on the stock exchange as Prestwick Holdings, has been in the care of Postern, the corporate recovery specialists, since early last year but returned to profit in the second half of 1994.

James Buxton, Edinburgh

Thieves fall out: A thief was restrained by his accomplice when he tried to rob a betting shop a second time. A court heard that 30-year-old Michael Smith of east London returned to the William Hill shop because he had found it so easy to persuade staff to hand over money the first time. On the second visit the accomplice appeared to have "a change of heart", a prosecutor said. "He wrestled Smith to the ground in a headlock . . . and that's how police found them."

Country call: Trees and traditional rustic signposts should not be swept away when country roads are modernised to accommodate increasing traffic, said the Countryside Commission. It condemned "the suburbanisation of the countryside by the use of designs more appropriate to urban areas and trunk roads."

LEGAL NOTICES

NOTICE OF APPOINTMENT OF JOINT ADMINISTRATIVE RECEIVERS

Name of company: Wilmid plc. Registered number: 926706. Trading name: Wilmid plc. Nature of business: Tube fabricators. Trade classification: 3990. Date of appointment of administrative receivers: 24th May 1995. Name of person appointing administrative receivers: Close Invoice Finance Limited.

A M MENZIES AND N TOMBS

Joint administrative receivers

Office holder numbers: 6053 & 7830

Robson Rhodes

Centre City Tower

7 Hill Street,

Birmingham B5 4UU

NOTICE OF APPOINTMENT OF JOINT ADMINISTRATIVE RECEIVERS

Name of company: Strand Marketing Limited. Registered number: 2194405. Trading names: Strand, Strand Conservatories, Chelsea Conservatories. Trade classification: 11. Date of appointment of administrative receivers: 26th May 1995. Name of person appointing administrative receivers: Lloyds Bank Plc

A M MENZIES AND N TOMBS

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4. A complete set of bidding documents may be obtained by any interested bidder on the submission of a written application to the above and upon payment of a non-refundable fee of $250.00 US. Additional documents may be purchased from the same address, each at the same price. The price of the tender documentation and its purchase is a precondition for participation in the tender.
5. Payment should be made either by cash or certified bankers cheque to: Associated Suppliers Company Ltd. 6910 North West 42nd Street, Express Box 131, Miami, Florida. 33166-6821.
6. All bids must accompanied by a security deposit of 5% of the bid value in the form presented in these documents and must be delivered to the above office on or before 12:00 noon local time on Friday 21st day of July 1995.

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Within the envelope we request that the following documentation has to be included:

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FT Surveys

COMPANY NOTICES

SPS TECHNOLOGIES LIMITED

NOTICE IS GIVEN pursuant to the Companies Act 1985 Section 175 that at an Extraordinary General Meeting of the above named Company ("the Company") convened and held on 31st May 1995 a Special Resolution was passed:-

1. approving a form of Contract providing for the purchase by the Company of 5,000,000 of its "B" ordinary shares of £1 each for the aggregate sum £7,530,000; and

2. Authorising the payment of £7,169,354 of the said sum out of capital

The Statutory Declaration of the Directors of the Company and the auditors report required by the Companies Act 1985 Section 173(5) are available for inspection at the Registered Office of the Company at 191 Barkby Road, Troon Industrial Estate, Leicester, LE4 9HX.

Any creditor of the Company may at any time within the five weeks immediately following 31st May 1995 apply to the Court under the Companies Act 1985 Section 176 for an order cancelling the Resolution or for other relief.

J. P. BIRD
COMPANY SECRETARY

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KPMG Corporate Finance

(KPMG Corporate Finance is a practising name of KPMG which is authorised by the Institute of Chartered Accountants in England and Wales to carry out investment business).

LEONARD CURTIS

BY ORDER OF THE JOINT ADMINISTRATIVE RECEIVERS PHILIP MONJACK FCA & DAVID SWADEN FCA

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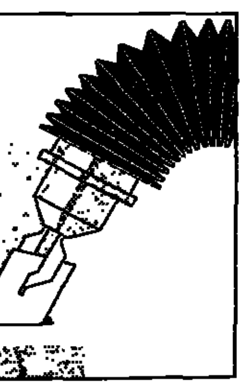


ROBOTICS AT WORK: Robots are better behaved than ever before. They move faster, reach higher, and carry heavier loads, and prices are falling. Andrew Baxter introduces a series that looks at their use across industry - the trends and latest applications.

Reaching further into industry

Foundries are often thought of as dark satanic mills devoted to a centuries-old industrial black art – the last place on earth, in fact, where one would expect to find robots at work.

Yet it was in a Ford die-casting foundry that one of the first industrial applications of a robot was recorded more than 30 years ago. Since then, few robots have been used in the industry, but things are changing.

Over the past few months, Ford's Windsor plant based in Canada, overlooking Detroit, has turned itself into what is claimed to be the world's most fully automated aluminium foundry. It uses more than 100 robots from ABB Flexible Automation, one of the world's largest suppliers.

Progress is being made in other industries, but much more slowly than predicted 20 years ago.

Like the foundry, the non-automotive users are often suppliers to the carmakers. This is partly a function of economics and labour. Countries with labour shortages and relatively inflexible workforces, such as Japan, have taken to robots much more extensively than those with lower costs and abundant labour.

Until the early 1980s, robots were considered too expensive by many potential users, performance fell short of vendors' claims and service level standards were low.

Inadequate programming and planning also often caused collisions between robot arms and surrounding equipment. In a few cases, products were redesigned to make them easier for robot assembly, but *then moved to a low-cost country to* be assembled manually.

There are many ways to automate without using robots. The European white goods industry, for example, is highly automated and efficient without the extensive use of robots. This may be because assembly of an appliance involves only a small number of spot welds, making the investment of robotic assembly *difficult to justify.*

For many industries, production batch size restricts the use of robots, says Arthur Collie, a leading robotics expert and industrial professor at the University of Portsmouth. "You would not use a robot for producing a batch of 10, and if you were making 100,000 you might consider moving production offshore."

But there are opportunities for low-cost robots in light assembly and manipulation tasks, he says. And the affordability of modern robots means suppliers' penetration of western, non-automotive markets is possible.

Since around 1982, robot prices *have fallen in real terms by 30 to 40* per cent, says Bruce Potts, president and chief executive of Fanuc Robotics Europe.

Credit, he says, has to be given to the automotive industry. Economies of scale that have come from supplying thousands of robots for spot welding on car production lines have brought prices down, benefiting other industries.

There has also been a dramatic improvement in functionality and ease of use. A decade ago, the robot industry *was offering general purpose* machines, says Potts. But in the 1990s, robots have increasingly been designed for specific applications, and recent software improvements have enabled easier application of robots to particular tasks.

Fanuc's new robot for loading and unloading pallets, launched in February, illustrates how the industry is trying to encourage interest among prospective customers. A complete rethink of the design has produced a robot that is faster, can reach higher, and carry heavier loads than its predecessors.

Such developments are attracting small- and medium-sized companies, creating a largely untapped *market for suppliers.*

A handful of medium-sized companies have been enthusiastic robot users for years. Somerset-based Clares Merchandise Handling Equipment, which makes supermarket shopping trolleys, installed its first robot in 1976. It now has 25.

Recently, says Guido Venturini of Italy's System Robot Automazione company: "A lot of SMEs are becoming interested in this type of equipment. From an economic point of view it is now much easier for them to consider the investment."

Massimo Mattucci, marketing and product development chief at Comau, Italy's best known robot supplier, says about half of the *robots it produces are going to* medium-sized companies, producing everything from valves to furniture and door handles.

Mattucci says the improved flexibility of robots, particularly when being re-used for a new task, is probably more important than their affordability.

A robot is a big investment, and such an outlay is more likely to be made by an SME when it is running two full shifts a day, says Peter Planchock, Fanuc Europe's vice-president for sales, marketing and engineering.

The use of robots in many western countries is unlikely to reach levels seen in Japan. But there are still plenty of opportunities to be grasped, says Potts, in industries such as food and food processing. The ever-increasing variety of food products and their packaging will force greater flexibility in processing, and that should benefit robotic solutions, says Planchock.

Colin Cooper at ABB Flexible Automation in the UK says health and safety regulations are leading to a greater interest in robots by the food, beverage and confectionery industries.

Regulations limiting the extent to which workers can reach forward to pick up boxes, for example, has led to robots being used for packing and palletising.

Producers of cycles and motorcycles, television tubes, electric tools and lawnmowers are also beginning to show interest, Cooper says.

In many cases, he adds, customers want to buy a robot as part of an automation package. An example is a contract announced by ABB last month for a robotised system to *cut beams used in the construction* of offshore platforms at Clydebank-based UiE Scotland. This robot will use a 3-D probe to measure the beam, match the dimensions with the stored design data, then pick up a gas torch to cut the beams to length.

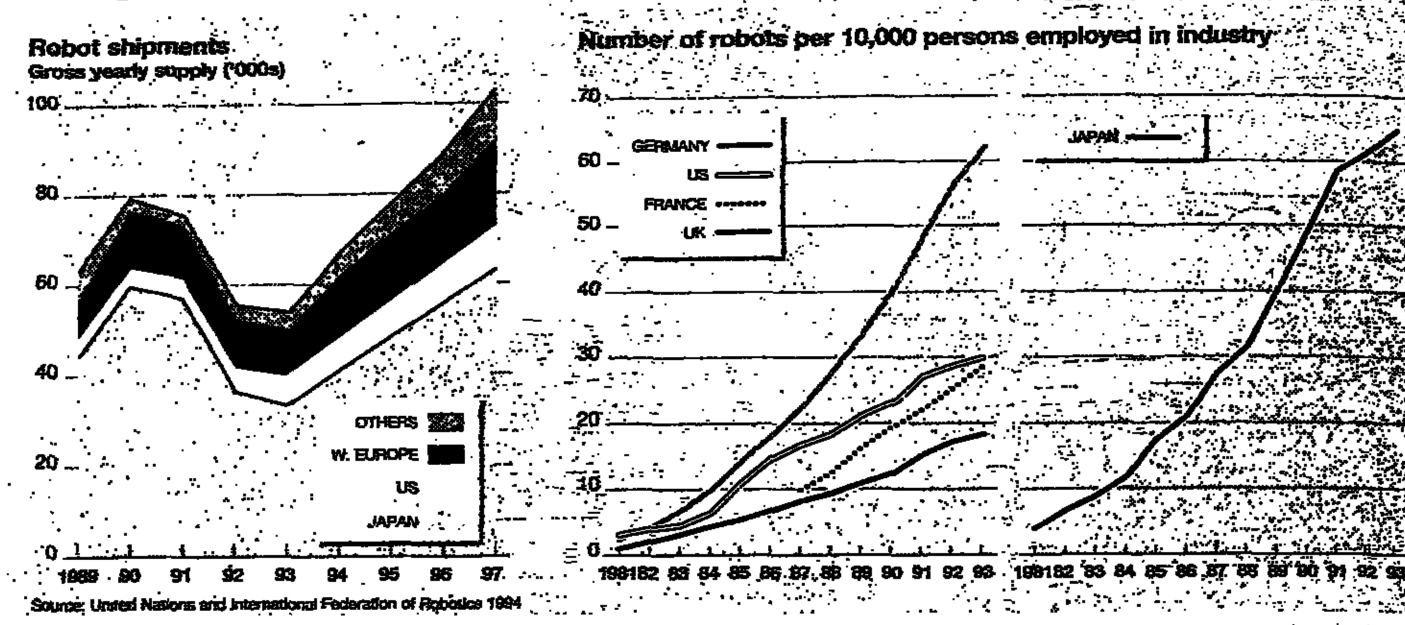
Many robot producers believe the automotive industry still offers growth prospects. Use of robots may not be growing in the main "body and white" assembly areas, says Mattucci, but there should be opportunities in the relatively unrobotised final assembly area. This, he *says, is likely as the number of* operations are reduced.

Cooper says demand for robots is growing in the automotive supply industry as car makers outsource more work and increase demands on component makers. Makers of plastic components such as bumpers and mirrors, for example, are buying robots to paint components in colours that match the bodywork. Robots are also being used to wield powerful waterjet cutting equipment – possibly dangerous and less accurate when operated manually – for cutting carpets and interior trim.

Robots may not yet have dramatically changed the face of western industry, but they clearly have an opportunity to extend their influence – *so long as they and their* producers do not overreach themselves.

Next month this series will look at robotics in space.

Rising global shipments



Optimism as industry starts to revive

Forecasts in many industries tend to get drawn as a straight line rising hesitantly, or even *confidently, up a graph while blithely ignoring* the evidence of past "booms" and "busts".

So it would appear with industrial robots, a world market that was growing strongly in the late 1980s, reaching a peak of 79,500 units in 1990, according to the annual figures produced by the United Nations and the International Federation of Robotics.

By 1993, the market had plunged to just 54,300 units, with most of the decline coming in 1992, when recession-hit industrial customers in the main robot-using countries cut back sharply on their investments.

Still, the signs are that optimistic projections now being made for the industrial robot market could prove correct, at least for the next three or four years. The official forecast was for 24 per cent growth in global robot sales last year, to 67,000 units, followed by further rises of about 17 per cent for this year and 15 per cent for 1996 and 1997.

***The decline in the market bottomed out in* 1993 and was followed by a strong recovery last year, for which complete figures are not yet available.**

All the major regions of the world, except Japan, saw shipments rise in the last three quarters of 1994, with particularly strong growth in the US. For the first half of this year, even Japan was forecasting that sales would rise. Further growth of 10 to 20 per cent is predicted for the US and western Europe.

If the forecasts are fulfilled, annual sales would be running at 103,500 units in 1997. The world stock of industrial robots would increase from about 611,000 units at the end of 1993 to 831,000 at the end of 1997, says the IFR. Of these, 478,000 would be in Japan, 78,000 in the US and 153,000 in western Europe.

At the same time, even in a best case scenario, the number of employees in industry would be stable or grow only modestly, so the density of robots – as measured by the number per 10,000 workers – would continue to rise.

As the charts show, there are some big *differences in robot density, with Japan way* ahead when measured on robots of all types or advanced robots. Similarly, there are huge variations across industry worldwide, with the motor industry and its parts suppliers accounting for at least half of robot sales, and other sectors lagging behind or – like the food and drink sector – growing from a small base.

This is why the IFR believes the potential for expansion of robotics is enormous.

If other industrialised countries were to approach the robot densities found in Japan and if industry in general were to reach only half the robot density of the motor vehicle sector, the robot population would increase dramatically. This would be the case even excluding the potential for robots in the service industries.

The "ifs" may be very big but, as the adjoining article shows, the robot industry will try to make at least some of the predictions come true.

AB

INTERNATIONAL PEOPLE

Palmer takes chair at DEC

Robert B. Palmer, 54, has become the first chairman of Digital Equipment Corporation (DEC). Digital, one of the world's biggest computer companies, was founded by Ken Olsen in 1957 with a $70,000 loan from Georges Doriot. It *went public in 1966 and Olsen,* who had the title of president, headed the company until 1992 when Palmer succeeded him as president and chief executive. Palmer, who joined DEC in 1985 as manager of the semiconductor operations, remains president and chief executive.

■ Jukka Viinanen is to be chief operating officer of Finland's Neste from July. The state oil and chemicals company has reorganised its management structure and divisional boards are being *discontinued*. All divisional senior executive vice presidents join a new corporate management committee chaired by Viinanen. Jaako Ihamuotila continues as chairman and chief executive.

■ Kurt Noesslinger, governor of Austria's Postsparkasse, or post office savings bank, succeeds Klaus Liebscher as president of the Vienna Stock Exchange. Noesslinger, who sits on the bourse's council, will be an interim replacement for Liebscher, who has become head of Austria's central bank.

■ John A. Roth, currently president, moves to chief operating officer and president of Northern Telecom (Nortel) North America from July. He *will assume* responsibility for Bell-Northern Research (BNR), Nortel's research subsidiary. David Winfield, currently Canada's Ambassador to Mexico, becomes senior vice president, government relations.

■ Donald T. Sullivan, 51, vice president of General Motors' Tokyo affiliate, Isuzu Motors, becomes vice president in charge of GM's Asian-Pacific operations. He succeeds Thomas S. McDaniel, 56, who is retiring.

■ Gilles Pelisson, 38, is joining Euro Disney as executive vice president (directeur général adjoint). He will oversee all aspects of the company's theme park and resort operations. Prior to joining Euro Disney he was co-president of Novotel Hotels.

■ Peter Johnson, director of worldwide research & development at Fisons, has joined Sweden's Astra group as senior vice president, corporate research and development. This follows the completion of the sale of the majority of Fisons' research and development operations to Astra.

■ Max Katz, 40, finance and information technology director at brewers Hürlimann in Zurich, joins Kuoni Travel in December as finance director.

■ Gordon Campbell, deputy chief executive of Courtaulds, *becomes president of CIRFS* (Comité International de la Rayonne et des Fibres Synthétiques), the representative body for the European man-made fibres industry.

■ Edwin H. Reitman, who has been with UPS for more than 25 years, has been appointed president of UPS-Europe, with responsibility for Europe, the Middle East and Africa.

■ Michael Chaney, managing director and chief executive of Wesfarmers, has joined the board of BHP.

■ *Charles A. Sanders has* resigned as an independent *director of* Merrill Lynch.

■ Richard F. Frisch, 47, becomes vice president, human resources, at Bowater Inc. He joined in 1994 after 14 years with Scott Paper.

■ Peter Thompson, currently senior general manager of First National Bank of Southern Africa, is appointed chairman of Visa International's newly formed Central and Eastern Europe, Middle East and Africa (CEMEA) regional board. Farid Saab, executive director of Arab Financial Services (Bahrain), and Ivan Remsik, director of Zivnostenska Bank in the Czech Republic, become vice chairmen. President of the new region is Anne-L Cobb, who is presently general manager of Visa's European Product Office.

■ Rafael V. Farace has replaced James C. Keavney as chief financial officer of Buenos Aires Embotelladora, the biggest Pepsi-Cola bottler outside the US. Robert G. Jackson replaces Farace as regional *manager of the group's Argen*tine franchise territories.

International appointments

Please fax announcements of new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

Treatment of equal pay

EUROPEAN COURT

The European Court of Justice last week confirmed that the European equal pay principle and the 1975 equal pay directive apply to piece-work pay schemes, *where pay depends on individual employee output.*

However, the Court said national courts had to take a number of factors into account depending on the particular circumstance of the case in deciding whether different pay levels were unlawful or could be objectively justified by employers.

The ruling was given in response to questions from the Danish Arbitration Board in proceedings between the Danish semi-skilled workers union *and the confederation of Dan*ish industry, acting for Royal Copenhagen, the china manufacturers.

The questions asked arose out of the specific circumstances of Royal Copenhagen employees. In particular, the national court expressed concern that, through reliance on the equal pay principle, unrepresentative groups of female employees could increase their pay to the higher level of other women employees first by comparison with a group of male employees which in turn could claim pay increases to the higher level of the female group which had been higher than both.

Royal Copenhagen has 1,150 staff divided into three groups: turners (200), painters (453), and the balance unskilled workers. The turners consist of sub-groups such as automatic machine operators (26, all men); the painters, sub-groups such as blue-pattern painters (155 women, 1 man) and ornamental-plate painters (51, all women).

All employees are covered by the same collective agreement and are paid on a piece-work basis since pay is wholly or partially dependent on individual output. An option exists to be paid at a fixed hourly rate. Seventy per cent of turners and painters are piece paid.

Automatic machine operators account for 18 per cent of *all turners paid by the hour* (average DKr103); the blue-pattern painters account for 49 per cent (DKr91) of painters paid by the piece and ornamental-plate painters 16 per cent (DKr116).

The plaintiff union considered the equal pay principle was infringed because the average hourly piece-work pay of the blue-pattern painters (all women, bar one) was less than the automatic-machine operators (all men). *The ECJ said* that in the piece-work situation, to be equal, pay had to be calculated on the basis of the same measurement unit. A difference in average pay was not alone sufficient to prove sex discrimination.

However, when the fixed element differed according to the group of workers concerned and it was not possible to identify the units of measurement used to calculate the variable element, the usual burden of proof on employees to prove sex discrimination *could* be shifted to the employer to *prove that the differences were* not due to sex discrimination but were objectively justified.

In this context, to ensure that the pay comparison of two employee groups relates to comparable situations and that pay differences are not purely fortuitous, short-term or simply due to output differences, the national court must take into account factors such as the comparability of the nature of the work, training requirements and working conditions.

Similar factors must be taken into account to determine whether the two types of work are of equal value and whether the circumstances themselves are objective factors unrelated to sex discrimination which justify the pay differentials.

In addition, although the equal pay principle also applies to collective agreements, the national court may take into account the fact that the pay elements are agreed through collective bargaining or by negotiation at local level to determine whether different average pay levels for work of equal value are due to such objective factors unrelated to discrimination.

C-400/93, Specialarbeiderforbundet i Danmark v Dansk Industri, ECJ FC, May 31 1995

BRICK COURT CHAMBERS, BRUSSELS

ARTS

Polemics rather than painting

William Packer reviews the work of Jörg Immendorf and Guillermo Kuitca

To go from the Summer Show of the Royal Academy to the current individual shows of work by two foreign painters, the one a German of well-established international reputation, the other a young and emerging Argentinian, is to have borne in upon one the gulf that exists in modern painting between public establishment expectations and private practice. The Academy, after all, is nothing if not the celebration of what the artist does for himself on his own terms. It does at least give us a great deal of painting that, whatever its quality and kind, is at least engaged with painting as painting.

What we find at the Barbican, with Jörg Immendorf, and even more so with the young Guillermo Kuitca at the Whitechapel – filling two of our most prestige-laden public spaces for the showing of paintings – hardly counts as painting at all.

Rather it is, if anything, a kind of anti-painting, but not in the sense that it makes conscious attack upon old accepted values – ugliness for beauty, crudeness for felicity, ineptitude for skill. No. What is evinced, rather, is a total indifference to such values. Painting as painting does not come in to it.

The irony is that just now and again, when the mask of indifference slips a little, or when they simply forget themselves for a moment, both artists show that they are capable of painting very interestingly, indeed. There are one or two small studies in water-colour by Immendorf that are fresh and uninhibited in their intuitive expressionism, while Kuitca might almost begin to relish the drawing and painting of his twists of thorns for their own sake, if only he would forget the public attitude he feels he should be striking.

But then the message is everything. Immendorf was a pupil of Joseph Beuys and has been an associate of such heroes of 1980s international modernism as Baselitz, Lupertz and Penck. He is a radical Marxist. In short he has the right credentials to persuade us to take him seriously as a modern master, whatever he does, and I am not yet saying we should not take him seriously. His own particular heroes, after all, are William Hogarth and Max Beckmann, both wonderful painters as such, for all the polemical nature of so much of their work. All I note is that with Immendorf, as with so many of our latter-day masters, the polemic, the story, the statement would seem to be enough, and who cares about the way it is made.

He has taken from Hogarth and freely adapted the story of the Rake's Progress, which is fair enough, but instead of the comparatively small scale and regularity of the original, he has used huge canvases of irregular dimensions that would be impressive for their size alone whatever their purpose. It does all rather miss the point. The actual images he has laid in with the consistently mannered, undifferentiated and supremely confident facility of the commercial illustrator, full of tricky detail and glib allusion. There is no evident curiosity at what he himself has done, no surprise, no intuitive working of the surface, no development or exploitation of painterly suggestion or opportunity. The pity is that clearly he could do all these things, and so much more. As it is, give me Beckmann, and Hogarth, every time.

Kuitca's case is both worse and more hopeful, for while he has rather less of technical facility and panache, he is also less complacently set in his ways. His work again is conventionally large, but is of several kinds. The show is a retrospective of sorts, and begins with a series of somewhat theatrical compositions in which tiny figures enact their ambiguous parts upon a huge and all but empty stage. The mood is dark, the inference symbolic and surreal – a bed, a chair, an embrace, a corpse, a visitation of an angel. The drawing is remarkable in its clumsiness, the manner of it, to put it at its kindest, *faux-naïf*.

There is then a group of paintings in which the particular image consists simply of the seating plan of theatre or stadium, neatly drawn and minutely numbered. And there are innumerable paintings – again we use the word advisedly – of details of maps, much inflated, with their surfaces selectively pressed in and held with upholstery buttons. The upper gallery is indeed largely occupied by several dozen mattresses treated in just this way.

The final group is the most interesting, a series of images upon the idea of the crown of thorns, carefully drawn and lovingly painted. Though the formal structure occasionally harks back to the artifice of the map or plan, one does begin to sense, or hope, that this work will lead to something more open in its possibilities, more truly personal in its feeling, and so much less self-conscious and portentous in the public attitude it strikes. "Here is simply a work of art", it should say: not "here is a modern artist".

Jörg Immendorf – the Rake's Progress: the Barbican Art Gallery, Barbican Centre, Silk Street EC2, until August 20. Guillermo Kuitca: Whitechapel Art Gallery, Whitechapel High Street E1, until June 25; supported by the cultural affairs department of the Argentine foreign ministry, the Horace W. Goldsmith Foundation, and Peter Kellner.

In homage to Hogarth: 'The Rake', 1994, by Jörg Immendorf

Theatre/Alastair Macaulay

Fiona Shaw as Richard II

The prospect of Fiona Shaw as Richard II, directed by her frequent colleague and intimate Deborah Warner, has, for months now, caused nervous clucking in theatrical circles. Shaw has a penchant for maximising the martyrdom of a role to the point of masochistic monomania.

Well, cluck ye not. Neither Shaw's performance nor Warner's production is moving – but there is no cause for scandal. The irony is that Shaw is the least harmonious element in the staging; and often the most irritating. Much of what she does is compelling and unusual; everything Warner puts around her is elegant and lucid; all of it is intelligent.

Shaw's Richard is Pierrot-like; a witty, charming, but melancholy boy king whose intense nervous system is larger than his capacity to rule. You believe in "his" masculinity in the way that you accept Octavian in *Der Rosenkavalier* – i.e. with a suspension of disbelief.

"He" treats his wife with courteous but distant chivalry. For his cousin Bolingbroke, however, he entertains marked partiality: a fascinating element to complicate the story. In turn, he causes a similar fondness not only in his loyal cousin Aumerle but in disloyal Bolingbroke also. And so the Richard-Bolingbroke political antagonism becomes charged with personal tenderness, even with sexual attraction. Which is finely achieved: neither Richard nor Bolingbroke demonstrate one simple emotion about the other. It becomes a tragedy of history that cousins so fond are sundered by political motives. A tragedy of psychology too: Richard, turning from monarch into victim, only grows in neurosis. So far so interesting.

You can tell, throughout Shaw's Richard, why she has been called a great actress. Intensity, audacity, imagination, eloquence, wit: she has them all in abundance. She wholly controls the big scenes, chiefly by means of constantly changing dynamics: the finest and best-concealed weapon in her large technical armoury.

But she has no stillness whatsoever. And she exaggerates. The way she sways all her weight onto her advancing leg, like a teenage boy trying to be more butch than he is, is crude; and her utter lack of repose when either speaking or listening becomes maddening. Also, since she has developed a quantity of mannerisms alarmingly large in an artist still in her 30s, she desperately needs a director who will pare those tricks out of her acting. These include: shallow and noisy breathing; sniffs galore; an array of staccato half-laughs; the mouth gaping open when listening; an exaggerated blink; and tics of the head and entire upper body. Each of them individually is expressive; but they have already become very familiar.

Shaw's exaggerations cancel out her expressiveness. Though she can give lines an inflection we never expected, she seldom brands her utterance onto memory. Her interpretations, though original, have a quality of self-conscious revisionism in them. "How novel," you think; seldom "How right." In this respect she is wholly outclassed by the transparent acting of Michael Bryant as the Duke of York and Paola Dionisotti as the Duchesses of Gloucester and York (and, briefly, as a lady-in-waiting to the Queen). Julian Rhind-Tutt as their son Aumerle provides a nicely neurotic characterisation. David Threlfall's Bolingbroke is quietly assured, but often slightly too detached. As his father, dying John of Gaunt, Graham Crowden has authority, menace, and the kind of twanging old-fashioned vibrato that almost throttles the lines. Brana Bajic as Queen Isabel is poignant and eloquent to the extent that her Yugoslav accent allows the lines to be intelligible.

Hildegard Bechtler, designing, has turned the Cottesloe Theatre into medieval choirstalls of glowing beauty – most of the audience is seated as if in the choirstalls – and as we sit down Arturo Annechino's gentle "period" choral music gently fills the air. The action of the play, mainly occurring in the broad central aisle, is finely fitted to the space. This is, in part, a sensuous production, where the fine detail of costume fabric is close enough to ravish the eye. The way the stage in a few strokes becomes a court, or a tournament, or a cell is superb. A cool and tranquil frame, in which the restless and overwrought spectacle of Fiona Shaw makes a peculiar impression.

In repertory at the Cottesloe Theatre, South Bank.

Fiona Shaw: familiar mannerisms Alastair Muir

'Sunset Boulevard' scoops Broadway's Tony awards

Sir Andrew Lloyd Webber received yet more ornaments for his mantelpiece in New York on Sunday when *Sunset Boulevard* won a Tony, Broadway's equivalent of an Oscar, as best musical of the year.

There was actually little competition, with *Smokey Joe's Cafe* the only other new musical opening on Broadway during the year. *Sunset's* star Glenn Close took the Tony for best actress in a musical for her critically acclaimed performance as fading Hollywood star Norma Desmond, and *Sunset Boulevard* naturally picked up awards for best musical score and lyrics.

As has become traditional, the British made their presence felt at the ceremony. To no one's surprise Ralph Fiennes was nominated best actor in a play for his *Hamlet*. But the UK lost out when Tom Stoppard's *Arcadia* was pipped as best play by Terrence McNally's study of eight gay men over a summer, *Love! Valour! Compassion!*

Cherry Jones took the best actress Tony for her performance in *The Heiress*, an adaptation of Henry James's novel "Washington Square". The play also received a Tony as the best revival, and its director Gerald Gutierrez was voted best director. *Show Boat* won in the best musical revival category, and Matthew Broderick was reckoned to be best actor in a musical for his part in one of the many revivals, *How to Succeed in Business Without Really Trying*.

There was a distinct lack of tension at the awards ceremony. Only 28 productions opened on Broadway in 1994-95 as against 37 the previous season and half of these were revivals. But audiences reached a 12 year high at 9.3m. They paid a record $406m at the box office – mainly to see long running musicals.

Antony Thorncroft

Concerts/John Allison

Gergiev galvanises the RPO

The latest two instalments in the Royal Philharmonic Mariinsky-Kirov Series brought the Kirov Opera's dynamic chief, Valery Gergiev, to the Festival Hall last week. Gergiev is, of course, most in demand conducting his native repertory – a gala, semi-staged performance of *Prince Igor* has just been announced for the Albert Hall in October – but his musical horizons are wide and it was good to hear him in non-Russian, non-operatic works.

Indeed, Gergiev seems to have a special affinity for French music, and it was neatly appropriate that a series designed to reflect something of St Petersburg's cultural heritage should take in Berlioz's *Roméo et Juliette*: the composer included excerpts from his "Symphonie dramatique" in the last concert he ever gave, in 1868, in St Petersburg, and had also conducted the work complete in the Russian capital 21 years earlier.

Under Gergiev's (batonless) direction, *Roméo et Juliette* took on a fresh and blazing intensity. He galvanised the RPO players into giving their best, allowing Berlioz's evocative, exhilarating score to work its many spells. The perfumed Love Scene and flickering Queen Mab Scherzo were obvious highlights of Saturday's performance, but, with excellent contributions from London Voices and the Brighton Festival Chorus, not all the interest was in the orchestra. Two soloists were from the Kirov: Sergey Alexashkin made a dignified Friar Laurence, and Olga Borodina was evocative in her description of the lovesick Romeo. The American Donald Kaasch put in a brief, idiomatic appearance for the tenor solo.

Thursday's concert paired Mozart and Mahler symphonies, No. 40 in G minor and No. 6 in A minor respectively, two works far apart stylistically but in Gergiev's searching interpretations sharing a sense of urgent struggle. Gergiev's Mozart was thoughtful, unflashy, full of bristling tension; the "fibre" of the inner textures was more exposed than often, but not at the expense of Mozart's melodic elegance.

Mahler's Sixth – a symphony that has baffled conductors and orchestras alike – had probably not had as much rehearsal time as the Berlioz, and needed more. But most of Gergiev's risks paid off: his unfailing command of long musical spans kept the work's sprawling self-indulgence in check, and he welded together convincingly the contrasting ideas of its life-and-death tussle. Though at times it sounded like Mahler with an "accent" – Mahlerian unreality and irony were in short supply – this was nevertheless a valid, indeed impressive, account from a great conductor.

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INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERTS

Het Concertgebouw Tel: (020) 671 8345

● Royal Concertgebouw Orchestra: with the Netherlands Radio Choir. Mariss Jansons conducts Schoenberg and Shostakovich; 8.15pm; Jun 9

GALLERIES

Gemeentearchief Amsterdam Tel: (020) 572 0202

● Mahler in Amsterdam: exhibition on the life and works of Mahler with an assortment of manuscripts, letters, scores and films; to Jun 11

OPERA/BALLET

Het Muziektheater Tel: (020) 551 8922

● Die Meistersinger von Nürnberg: by Wagner. Hartmut Haenchen conducts the Netherlands Philharmonic Orchestra and soloists Jan Hendrik Rootering and Siegfried Vogel; 5.30pm; Jun 7, 10, 13

Royal Theatre Carré Tel: (020) 320 2500

● Esmée: by Loevendie. World premiere based on a true story during the German occupation. Friedemann Layer conducts the Netherlands Radio Philharmonic and soloists Jeanne Piland and Marie Angel; 8.15pm; Jun 6, 8

■ BERLIN

CONCERTS

Konzerthaus Tel: (020) 309 21 02/21 03

● Moscow Chamber Orchestra: with violincellist Boris Pergamenschikow. Constantine Orbelian conducts Mozart and Tchaikovsky; 8pm; Jun 7

● Orchestra of the Deutsche Oper Berlin: with pianist Bruno Leonardo Gelber. Jiri Belohlavek conducts Shostakovich's "Symphony No.1" and Brahms' "Concert for Piano and Orchestra No.2"; 8pm; Jun 8

■ COLOGNE

CONCERTS

Kölner Philharmonie Tel: (0221) 2801

● New York Philharmonic: Kurt Masur conducts Beethoven's "Symphony No.7" and Shostakovich's "Symphonie No.5"; 8pm; Jun 10

● Radio Symphony Orchestra Cologne: with pianist Mark Zeltser conducts Mussorgsky, Rachmaninov and Shostakovich; 8.15pm; Jun 7, 8

■ FRANKFURT

GALLERIES

Städel Tel: (069) 60 50 98 1 15

● Gerhard Richter - Ilya Kabakov: photographs; to Aug 27

OPERA/BALLET

Oper Frankfurt Tel: (069) 23 60 61

● Lady Macbeth of Mtsensk: by Shostakovich. Conducted by Guido Johannes Rumstadt and produced by Werner Schroeter. Soloists include Valeri Alexejev, Ryszard Karczykowski and Christine Ciesinski; 7.30pm; Jun 11

■ GENEVA

OPERA/BALLET

Grand Theatre de Geneve Tel: (022) 311 2211

● Orphee: by Gluck, French adaptation by Pierre Louis Moline. Conducted by Jeffrey Tate, produced by Andreas Homoki. Soloists include Anne Sofie Von Otter, Barbara Bonney and Elizabeth Futral; 8pm; Jun 12

■ LONDON

CONCERTS

Barbican Tel: (0171) 638 8891

● London Symphony Orchestra: with violinist Gil Shaham. Andre Previn conducts Vaughan Williams, Prokofiev and Strauss; 7.30pm; Jun 8

Royal Festival Hall Tel: (0171) 928 8800

● Itzhak Perlman: violinist with the Philharmonia Orchestra. Lawrence Foster conducts Beethoven; 7.30pm; Jun 10

● Itzhak Perlman: with the Philharmonia Orchestra. Yoel Levi conducts Brahms' "Academic Festival Overture" and "Violin Concerto" plus Mozart's "Violin Concerto No.3"; 7.30pm; Jun 13

● Murray Perahia: pianist plays Scarlatti, Handel, Beethoven, Schumann and Chopin; 7.30pm; Jun 9

● Philharmonia Orchestra: with violinist Maxim Vengerov. John Eliot Gardiner conducts Elgar, Bruch and Mendelssohn; 7.30pm; Jun 8

GALLERIES

National Portrait Tel: (0171) 306 0055

● Richard Avedon: large scale photographic portraits and fashion photographs; to Jun 11

OPERA/BALLET

Royal Opera House Tel: (0171) 304 4000

● Billy Budd: by Britten. A new production conducted by Robert Spano and directed by Francesca Zambello. Soloists include Graham Clark, Francis Egerton, John Duykers and Rodney Gilfry/Peter Coleman-Wright; 7.30pm; Jun 9, 13

● La Bohéme: by Puccini. Conducted by Jan Latham-Koenig and directed by John Copley. Soloists include Cynthia Haymon, Nancy Gustafson and Roberta Algana/Tito Beltran; 7.30pm; Jun 8, 10 (7pm)

■ NEW YORK

THEATRE

Belasco Tel: (212) 239 6200

● Hamlet: by Shakespeare. Starring Ralph Fiennes in a limited run; 8pm; to Jul 22 (not Mon)

Ethel Barymore Tel: (212) 239 6200

● Indiscretions; based on Jean Cocteau's "Les Parents Terribles" in a new translation by Jeremy Sams and starring Kathleen Turner, Eileen Atkins and Roger Rees; 8pm; (not Mon)

■ PARIS

CONCERTS

Châtelet Tel: (1) 40 28 28 40

● New York Philharmonic: Kurt Masur conducts Strauss' "Métamorphosis" and Beethoven's "Symphony No.3"; 8pm; Jun 7

● New York Philharmonic: Kurt Masur conducts Shostakovich and Beethoven; 8pm; Jun 9

Champs Elysées Tel: (1) 49 52 50 50

● National Orchestra of France: with soprano Monica Pick-Hieronimi, mezzo-soprano Nadja Michael, tenor Thomas Dewald and bass Michael Volle. Charles Dutoit conducts Beethoven's "Symphony No.1" and "Symphony No.9"; 8pm; Jun 14

OPERA/BALLET

Champs Elysées Tel: (1) 49 52 50 50

● Ezio: by Handel. Conducted by Robert King, directed by Stephen Medcalf and with the King's Consort. Soloists include James Bowman, Susan Gritton and Dominique Visse; 7.30pm; Jun 6, 7, 9, 10

Opéra National de Paris, Bastille Tel: (1) 47 42 57 50

● Les Capulet et les Montaigu: by Bellini. Conducted by Bruno Campanella and produced by Robert Carsen. Soloists include Jeffrey Wells, Cecilia Gasdia and Jennifer Larmore; 7.30pm; Jun 9, 12

■ VIENNA

CONCERTS

Gesellschaft der Musikfreunde Tel: (1) 505 1363

● Les Arts Florissants: William Christie conducts soprano Susan Bullock, mezzo-soprano Susan Bickley and tenor Marc Padmore to play Beethoven; 7.30pm; Jun 14

Wiener Kammeroper Tel: (1) 512 01 00

● Viennese Philharmonic Orchestra: with soprano Deborah Voigt and baritone Bryn Terfel. Giuseppe Sinopoli conducts Schoenberg and Zemlinsky; 7.30pm; Jun 9

Wiener Konzerthaus Tel: (1) 712 1211

● South Western Radio Orchestra: with soprano Julie Moffat. Ingo Metzmacher conducts Webern and Mahler; 7.30pm; Jun 12

● Symphonic Ensemble: Franz Welser-Möst conducts Liszt's "Les Préludes" and Shostakovich's "Symphony No.7"; 7.30pm; Jun 7

● Viennese Symphony Orchestra: with soprano Christiane Oelze. Michael Gielen conducts Mahler and Webern; 7.30pm; Jun 8

■ WASHINGTON

THEATRE

Folger Theater Tel: (202) 544 7077

● The Merchant of Venice: by Shakespeare. Commemorating the 400th anniversary of the play, this production is directed by Joe Banno; to Jun 25

Kennedy Center Tel: (202) 467 4600

● Angels in America: Part One, The Millenium Approaches. Tony Kushner's Pulitzer prize and Tony award-winning play about sex, politics and religion; 7.30pm; to Jun 8

● Angels in America: Perestroika. Part Two of the Tony Kushner award-winning play about politics, sex and religion. Stars Jonathan Hadary; 7.30pm; from Jun 9 to Jul 9 (not Mon)

WORLD SERVICE

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Basque truce proves elusive

Eta is putting out feelers but prospects for Ulster-type peace talks are slim, says David White

A terrorist group fighting for 25 years, with a declining bedrock of public support and a political arm putting out feelers for negotiations: the description applies equally to the IRA and the Basque separatist organisation Eta.

But there the comparison ends. The IRA's cease-fire last August has led to meetings between Sinn Féin, its political wing, and UK ministers, boosting hopes of an end to the violence in Northern Ireland. No truce is yet in sight in the Spanish conflict, with no political consensus on whether, when or with whom to negotiate.

The Ulster peace process has made a deep impact in the Basque country. "It does not seem acceptable that we should be the only ones in the heart of Europe unable to solve our problem," says Mr José Antonio Ardanza, the *lehendakari* or president of the Basque regional government.

The region already enjoys considerable autonomy from Madrid, including the right to collect its own taxes. Its government is a coalition including Mr Ardanza's mainstream Basque Nationalist party (PNV) and the Socialist party which forms Spain's national government. But Eta continues its underground campaign for independence for the Basques, with the backing of Herri Batasuna (People's Unity), the radical nationalist coalition linked to it.

A new drive for conciliation has come from Elkarri (Together), an organisation formed two years ago, originally close to Herri Batasuna. Mr Jonan Fernández, Elkarri's head, believes "a cycle of confrontation is petering out" and that Northern Ireland is showing the way.

In March, Elkarri staged a peace conference involving Herri Batasuna and four other parties, including the PNV, mainstream Basque Nationalist party (PNV) to which Mr Ardanza belongs. The conference was undermined by the murder in January of Gregorio Ordóñez, who was standing for mayor of San Sebastian for the Popular party, the main Spanish opposition. As a result, the Socialists pulled out of the conference (the Popular party had already declined to attend).

In April, Eta set out conditions for "a ceasefire to make way for the democratic process". These included an amnesty and recognition of "the right to self-determination and the territorial integrity of the Basque homeland" – meaning union with the larger neighbouring region of Navarre.

The proposals were issued a week after Eta had tried to assassinate Mr José María Aznar, leader of the Popular party, with a Madrid car bomb. Mr Ramón Jáuregui, the Socialists' leader in the Basque country and a member of the region's coalition government, with responsibility for justice, economy and labour, believes that negotiations are impossible unless Eta ends the violence.

"What I observe now is a more hardline, more fanatical Eta, even believing it is stronger than ever," Mr Jáuregui says. "It seems to be going back 10 years. The Eta hard core is convinced that violence will bring results, and push aside all those who think differently."

He says the recent attacks show Eta is focusing its attention on a likely Popular party victory in the general election next year or in 1997. The calculation, says Mr Jáuregui, is that a Popular party government will either change its policy and negotiate, or opt for repressive measures which would bolster Basque public sympathies for Eta.

A series of arrests in Spain and France since last autumn is reckoned to have reduced the number of active terrorists in the organisation to between 50 and 60 members. Some 600 are in jail. The organisation, Mr Jáuregui says, cannot repeat its campaigns of the mid-1980s, when it was killing between 40 and 50 people annually. But he says it still has the resources to carry out between 10 and 15 attacks a year, backed up by the street violence of its youth groups.

Herri Batasuna's share of the Basque vote has fallen from its peak of 22 per cent in 1986. In the recent municipal elections, it scored just under 15 per cent. The latest terrorist incidents have highlighted divisions in the organisation, with some members dissociating themselves from attacks on politicians.

The next stage must be secret talks, says Mr Fernández of Elkarri. However, it is not clear who can negotiate on behalf of Eta – the organisation's leadership, based in France, has been run to ground by the Paris authorities.

Herri Batasuna says it cannot make pledges on Eta's behalf. "It is Eta that decides," officials say.

The one unquestioned Eta leader, Domingo Iturbe Abasolo, known as Txomin, died in 1987 in an accident in Algeria. No figure has emerged of equivalent authority to Mr Gerry Adams, Sinn Féin's president, or Mr Martin McGuinness, its chief negotiator.

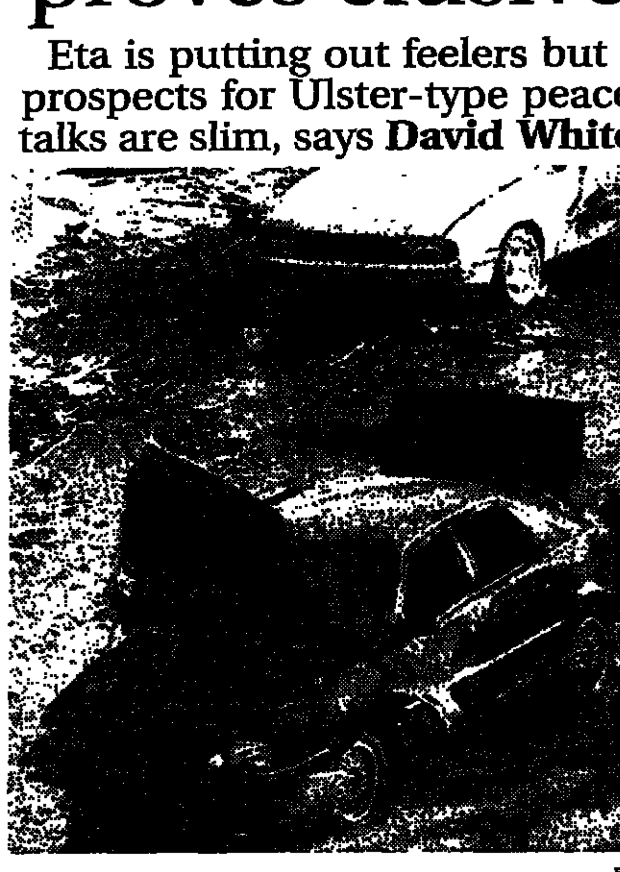
Senior Spanish government officials held discussions with Eta in Algeria in 1989, after a series of discreet contacts. Government and Socialist party officials continued "temperature-taking" contacts with Herri Batasuna up to early last year, but not since.

In seeking a solution, the Spanish government has been hamstrung by the Socialists' declining popularity. Any appearance of softness towards Eta is seen as a vote-loser. The Popular party has toughened its stance towards Basque separatism and rejects claims for self-determination – which would mean a referendum on independence.

Mr Ardanza accuses the Popular party of breaking a long-standing pact between the main parties not to use the terrorist problem as a party political weapon. But he is also increasingly frustrated with the Socialists with whom he has governed the Basque country in the coalition for eight years. He says Madrid has been delaying the hand-over of powers to the Basque government in areas such as social security and infrastructure.

The Socialists argue that the region has come a long way, including the promotion of the Basque language and establishing a Basque police force, and say there is little left to negotiate. But a recent regional survey published by Elkarri showed about 24 per cent supporting independence, with a further 36 per cent favouring more home rule.

Says Mr Ardanza: "One thing is having the right recognised. Another thing is how it should be exercised or when ... As long as there is non-recognition of a right there will continue to be a political problem."



EPA

An Eta car bomb wrecked José María Aznar's car in Madrid

No case for a yellow card

PERSONAL VIEW

Substantial anger and frustration has been aimed at institutional investors over the way they voted with the British Gas board and against the wishes of small shareholders present at last week's annual general meeting. It is important in such circumstances both to spell out the reasoning behind Hermes's policy and to show that the actions of the small shareholder and the institutional shareholder are not so far apart.

The first point is that directors are appointed by shareholders to act as their representatives, not their delegates. For shareholders to vote on individual policy matters is a very slippery slope.

Individual pay packages are not suitable matters for shareholders to vote on, provided there is a properly constituted remuneration committee made up of independent non-executives. If shareholders disapprove of a remuneration package, they are registering a vote of no-confidence in the board. There is nothing to stop angry individual shareholders from deciding to "throw the rascals out", even if the company suffers as a result. But institutional investors have a fiduciary responsibility to their clients: if removing the board would damage the company, then we should not act to bring that about.

We have expressed concern to British Gas about its pay policy. Although many of the changes made to the company's remuneration package were welcome, it showed little imagination in anticipating how the increase in the basic pay of Mr Cedric Brown, the chief executive, would be received. The resulting furore has damaged the company. This does not mean, however, that Mr Richard Giordano, chairman, and Mr Brown are the wrong people to guide the company through the next very difficult period. They know that credibility has to be rebuilt. There is no point in shareholders holding up a yellow card, or even a red one, to emphasise this.

The contract we make with a board of directors is that they will receive our support unless and until we have indicated to them that they have lost our confidence. This is an all-or-nothing approach, but there is clearly a spectrum between total confidence and the time at which we indicate that we will seek alternative management.

Often, when we have reservations, we succeed in forcing a company to change its ways before we are obliged to vote against the board in a public meeting. But we are not frightened of taking a disagreement to the AGM.

Small shareholders should not believe the result of British Gas AGM was a defeat for pay moderation

There are at present at least two companies which we have told can no longer rely on our support. It is important for boards to know that this is our position, not least because it reduces the risk they will misinterpret our actions as short-termism. We have not accepted a hostile bid against the recommendation of a company's board in the last three years. However, not only would we be likely to accept a bid for a company in whose board we no longer had confidence, but we would actively seek a change of management, either through acquisition or a management buy-in.

Our clients own 1.7 per cent of the value of the UK equity market, with a portion of the funds being indexed. This means, in effect, that we have foregone the option of selling our stake in a company which has lost our confidence. This in turn places a greater responsibility on us to seek the best management for all of quoted British industry: we are very unlikely to have *no holding in* any of the All-Share Index stocks at any time. This broadly based portfolio *imposes constraints* on our ability to attend all AGMs. We were, however, represented at the British Gas meeting and we lodge proxies on all our clients' shares on all occasions.

The interests of the small shareholder and the institution often become aligned at AGMs. In the campaign we launched in 1993 *to* reduce the term of rolling executive contracts, the intervention of small shareholders probing boards was important to its success. Company chairmen do not relish spending hours under attack, particularly when they are trying to defend the indefensible.

Small shareholders intent on moderating the escalation of executive pay should not believe that the result of the British Gas AGM was a defeat. Every remuneration committee in the country will as a result be asking itself *whether what it is discussing* will end up on the front page of the newspapers, and, if it does, whether it can defend its decision.

My job is to maximise the long-term returns of 750,000 pension fund members. If I or my colleagues see boards acting in their own interests and not in the interests of their shareholders, then we must act. The rolling contract campaign showed we are not frightened to challenge the status quo, particularly on policies common to all companies.

We could not develop either a consistent approach to governance or a sensible policy if we were to carry out a referendum of all our client schemes' members on every vote.

The trustees of the schemes are the guardians of the assets of the pension funds. We reach *agreement with* these trustees on the principles underlying our approach to governance matters. They then delegate to us the responsibility of acting on their behalf in accordance with our judgment. What we are paid ourselves must not affect that judgment; our only duty is to act in the interests of our client schemes.

The pensions bill at present going through parliament will give all members of schemes where pensions are linked to a member's final salary the right to appoint up to one-third of the trustees.

I would encourage all trustees appointed as a result to ensure that governance policies are developed by their investment managers – and that these managers always cast their votes. The biggest present weakness of the UK's corporate governance system is that fewer than 50 per cent of shares are voted at almost all AGMs.

Organisations such as Pirc, the corporate governance consultancy, are important contributors to the present debate. Although I disagreed with *their approach to the* British Gas AGM, we are at one in many of our aims. Indeed, I have spoken at their annual conference the last two years.

It is quite right that concerns about any element of the management of a company should be open to public scrutiny. But the removal of boards is a solution only when all else has failed. If all individual decisions made by boards were subject to formal approval, it would make company management impossible.

Alastair Ross Goobey

The author is chief executive of Hermes Pensions Management, formerly PosTel.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). Translation may be available for letters written in the main international languages.

Disturbing attitude to cleaning up

From Mr A.D. Nunn.

Sir, Robert Corzine's article "After the oil rush" (May 27/28) gives figures of £3.5bn-£4bn as costs for the decommissioning of the oil rigs over the next 20 years. Several questions came to mind when reading this. Can it be assumed that the oil companies made no provision for this eventuality, and can it be assumed that they also feel able to chuck their junk where they like as long as no one can see it? If this is the case I would be in no hurry to invest in an industry with so little foresight not to have anticipated this situation. Nor would I in one of such presumably poor financial state that it is unable, even with the taxpayer paying 60 per cent of the cost (a fair figure, considering we all benefited from the whole adventure) to dispose of its rubbish in a way that a responsible company, in a business with such a high potential to affect the environment, would be expected to do.

May I assume that when my car is old and past it the authorities will allow me to dispose of it by dumping it in some remote part of Scotland or Dartmoor because there are only a few rabbits there (or even Antarctica, not much there!). Considering that an old car must have fewer "problem environmental components" than the oil rigs that Professor Cliff Johnston, of Heriot-Watt University, was referring to, this should be acceptable. It is the attitude that it is acceptable to throw rubbish away as long as nobody is around that leads to old bedsteads being dumped down slopes and on to "waste" land or toxic waste being dumped because there are no people living there.

The attitude that cost justifies such action, indeed almost any action within the laws, and presumably any action if the laws were not there, is a disturbing one. It would be better to provide at the outset for proper cleaning up instead of only if the cost factors subsequently allow.

A.D. Nunn,
4 New Cottage,
Twyford, Haywards Heath,
East Sussex RH17 7DH, UK

Surprising example of insensitivity to cultural dignity

From Mr Paul Grisanti.

Sir, Jurek Martin has a better grasp of my country than any journalist on either side of the Atlantic. Bob Dole is not the best man for the job of president. So why is my first letter to your newspaper criticising the former and defending the latter? Because I would hate to think that Mr Martin has either contemporary British ignorance of America, or old British ignorance of Catholic dignity. I wasted $8 to see the movie *Priest*, which Mr Martin referred to in his article "Right-on leader of the third wave – Ralph Reed" (May 20). I will tell others not to see it, and hopefully they too will spread the word, since the best word for it is, essentially, bigoted.

An FT writer less inclined to cultural sensitivity than Jurek Martin made fun of Hispanic senior citizens in an article on last year's New York mayoral election. The students at the high school where I teach economics, most of whom are immigrants from the Dominican Republic, have learned from me that Jurek has *mas respeto*. He doesn't know Americans as well as I thought if he can't see the anger this movie has created.

Paul Grisanti,
347 W 55th St, Apt 7f,
New York, NY 10019, US

No ancient meaning

From Dr John Wall.

Sir, With reference to the letters published under the headline "Cruising to some sort of a record" (May 22) on the longest German word, at school we learned the "longest word in ancient Greek":

ὀρθοφοιτοσυκοφαντο
δικοταλαιπωρος

It was then about as useful as the full title of Danube Steamship Company captains, but I have found it far more relevant in adult life. It means a "thieving, scheming, conniving lawyer".

John Wall,
chief executive,
The Medical Defence Union,
3 Devonshire Place,
London W1N 2EA, UK

Implications of SE pricing review

From Mr Fields Wicker-Miurin.

Sir, I feel it is important to correct a number of misconceptions which the article "Stock Exchange to review trading costs" (May 2) may have conveyed to our market participants. The exchange is, indeed, reviewing its pricing structures as part of normal business operations to reflect the changes in the services offered to our constituents. We are in the process of phasing in our Sequence programme which will replace all of the *exchange's trading and information* systems with a single, unified, flexible platform by August of next year.

Sequence will provide both enhanced versions of existing services and entirely new services. Naturally we will be assessing cost structures and prices as these services evolve.

Our overall aim is to provide the most efficient, cost-effective and competitive services to member firms and other market participants to enable them to lower their costs as the market moves into the 21st century.

It is incorrect to imply that the exchange is planning to increase the prices for any particular services. Nor would it be accurate to attribute unspecified price "rises" to the loss of revenues from settlement services when Crest takes over share settlement. Our review is in the early stages, but our overall objective is to ensure that our prices fairly reflect the value of the services we provide.

At the same time, the exchange is keeping a very tight control on its own costs which, in fact, are continuing to decrease.

Fields Wicker-Miurin,
director of strategy and finance,
The London Stock Exchange,
London EC2N 1HP, UK

Not uncommon then

From Mr Stan du Plessis.

Sir, The article "A history hidden by the apartheid years" (June 5) by Michael Holman was yet another misguided attempt at labelling South African rugby supporters as racist and South African rugby as the last stronghold of separatist politics.

What relevance could a quote from an 1884 Port Elizabeth newspaper possibly have on modern South Africa? Michael Holman should not forget that Port Elizabeth was a part of the British Empire in 1884. The racist quote which Mr Holman's careful research revealed was probably not uncommon for an English paper anywhere in the British Empire at the time.

The Financial Times would do well to refrain from propagandist articles under the banner of "World cup" coverage. I recommend that you stick to the rugby.

Stan du Plessis,
27 Chequers Road,
Basingstoke RG21 1PT, UK

Crime and punishment

From Mr Don Peters.

Sir, Your leader "Private prisons in perspective" (June 2) identified three "yardsticks" forecasting improvement for everyone concerned – except the prisoners and their victims.

The consequence of crime is (often) punishment; and the consequence of punishment is (often) more crime: that's "recidivism". Unless some radical reform is introduced into the "Victorian values" of our notorious system, continuing increase in crime seems inevitable.

The UK's current home secretary, Michael Howard, faithfully follows tradition: "If the medicine makes the disease worse instead of better – increase the dose!" Roll on the general election.

Don Peters,
77 Belgrave Road,
London SW1V 2BG, UK

Prize should go to those who try hardest

From Mr Michael S. Barber.

Huw Richards ("Devaluation of an old currency", June 1) is right. Rugby achievements are devalued by the emphasis on points.

The remedy is simple. The winner of a game of rugby should be the team that scores more tries. If tries scored are equal, the winner is the team with more conversions. If conversions are equal, or zero, more dropped goals shall decide. If dropped goals are equal or zero, more penalty goals shall decide. The result of this would be more run penalties, fewer place kicks, thus more action and better spectator rugby.

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FINANCIAL TIMES

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Tuesday June 6 1995

IBM's costly software bid

The memoirs of Tom Watson Jr, the man who took IBM into the computer era, contain only one reference to software, an agonised tale about how it always costs more and takes longer than you think.

Yesterday's announcement of a $3.3bn hostile bid by IBM for Lotus, the company that made the 1-2-3 spreadsheet ubiquitous, shows both how quaintly old-fashioned that paucity of comment seems – and how prescient. These days, the hardware on which IBM built its fortune is a perilously fragile foundation for the computer company of the future: software is now the industry's core product, one for which IBM is willing to pay way above the previous market price. Yet both IBM and Lotus have, in their different ways, struggled to manage the process of writing software.

The attraction of Lotus to IBM goes beyond this shared unhappiness. It offers another memory of the Watson days, a ghostly echo of the "account control" of the past. By offering customers something they badly needed – industry standard hardware – IBM managed to lock them in for a generation, until the personal computer came along. Now, account control takes place at the software level, and Lotus offers one of the possible ways to achieve it, through its Notes "groupware".

This program allows workers in big companies to stay in touch around the globe, exchanging messages and managing shared databases on projects and customers. It can be easily manipulated by end-users, and is good at keeping the version of the data held in, say, the Jakarta office in sync with that held in Düsseldorf. But its principal virtue lies not so much in its technical excellence but in its ubiquity: it was the first product in this category and remains by far the dominant one.

Ubiquity is what IBM badly needs to compete in the market for networked computer software, where it lags behind three rivals. Microsoft owns the main user interface; Novell owns the main network operating system; Oracle owns the leading distributed database. There are no prizes for coming fourth.

This is a recipe for rapid industry concentration, now achieving a self-reinforcing speed and ferocity. US anti-trust authorities have already intervened, in actions aimed at Microsoft. Should the sudden appearance in this arena of IBM, the trust-busters' old nemesis, cause them renewed concern?

On balance, no. IBM is notoriously bad at handling both acquisitions and desktop software; it has no unfair advantage in developing Notes. If IBM is able to use it salesforce to sell Notes more effectively, that provides a stronger competitor to the other market rivals. If it mishandles Lotus as badly as it mishandled Rolm, the telecommunications company acquired in the 1980s, competitors will pounce on any unhappy customers. The trend towards concentration itself will bear watching; but on this bid, the verdict can safely be left to the shareholders of both companies.

Water woes

To take an unfashionable view: it is possible to feel a scrap of pity for the privatised water companies. Instead of being liberated by privatisation to pursue a clear commercial path, they are wading through a swamp in which every action is politically charged. They are damned if they make much profit, and damned if they make too little.

Yesterday Anglian Water announced that it was giving back a slice of its latest profits to customers, citing one-off efficiency gains. The move, which follows North West Water's decision to make a similar rebate, recognises that many people object to leaps in profits and dividends while water bills rise above inflation.

Mr Ian Byatt, the water regulator, was right to say yesterday that, from the regulator's point of view, rebates are acceptable, but not obligatory. In setting caps on annual prices, the basis of existing regulation, regulators are simply prescribing the maximum rises allowed.

However, there are two qualifications. Before making rebates, companies must sure that they can meet investment obligations, a point Mr Byatt rightly stressed. The programme of infrastructure improvements is even heavier in water than in other utilities. Second, companies should be under no illusions that generosity to customers will soften the terms of the next pricing review. If anything, it is likely to make that ruling tougher: companies' disclosure of profits is evidence which may be used against them.

Given the small chance that generosity will lighten the regulatory load, it is hard to argue that rebates are in shareholders' interests. If companies are regarded as purely profit-maximising entities, it is not clear that the policy of making rebates is justifiable.

Some may argue that near-monopolists should not act as profit-maximisers, but should share profits between all stakeholders – shareholders, customers and employees. That stance strikes a chord with many, but it has pitfalls. If shareholders take a dim view of the principle, as they would probably do, they would sell their shares. The consequent rise in the cost of capital could mean that customers eventually pay more for utilities. Splicing the stakeholder theory on to the present rules might seem simply a kindly amendment. But it would reflect a profound scepticism that the present rules can ever deliver a fair balance between customers and shareholders, and could undermine those rules entirely.

So far, the rules are doing a good job of tightening the utilities' prices, particularly given the flaws of privatisation. Last summer's reviews went some way to correct those faults; Mr Byatt points out that the profits which companies are now reporting do not yet reflect that tightening. The framework has many shortcomings, but introducing a regular practice of splitting profits between shareholders and customers would be a radical change that is not yet warranted.

Beirut resurgent

The word Beirut triggers images of mindless destruction. The 1975-90 civil war in Lebanon appeared to have ended Beirut's role as the natural financial clearing house for the Middle East, and even to have terminated the idea of an independent Lebanon. But things are not at all that bleak.

The civil war was to a large extent a regional conflict fought by proxy on Lebanese soil. If – a big if – there were a workable accommodation between Arab and Jew, Beirut would have a chance to reinvent itself as a regional financial centre.

Pre-war, Beirut traded on the skills and services of its entrepreneurial people, building up a banking centre sustained by capital flight from its neighbours and the recycling of petro-dollars from the Gulf to the west. A resurgent Beirut – as described in an FT survey today – will need to make its living the other way round, by becoming the gateway for capital entering the Middle East, to meet the development opportunity created by peace.

The historical precedents for Beirut's rebirth as an international financial centre may not seem promising. In Europe, for example, neither Antwerp nor Amsterdam recovered the financial pre-eminence they lost through war. But Beirut retains several advantages.

It retains features that make it a natural capital market: an open economy, a convertible currency, and banking secrecy. In Beirut's absence, alternative centres, such as Bahrain and Dubai, have not replicated its pre-war role, nor developed enough to meet the region's new needs.

Beirut's revival should also be underpinned by the inflow of capital to finance Lebanon's reconstruction. The requirement is for US$35bn (£22bn) in reconstruction funds over the next decade; some $8.5bn of which arrived last year, mostly from private Lebanese capital abroad. That inflow underlines the role of the Lebanese diaspora as a source of wealth. With Lebanese bankers to be found in all international finance houses, it is also a source of skills.

Such strengths, as well as the absence of strong regional rivals, give Beirut an excellent chance of achieving pre-eminence as a market for Arab funds from inside and outside the region; as a market for corporate and government debt; and – once Beirut's stock exchange reopens later this year – as a market for cross-border flotation of privatised companies and parallel listing of shares from other regional exchanges.

The most important opportunity of all would emerge from completion of peace talks between Israel and Syria. An accord should bring Israeli withdrawal from Lebanon's south, and a reappraisal of Lebanon's relationship with Syria. Syrian hegemony resulted from the civil war. But a Syria at peace would need help in restructuring its inefficient command economy. Then Lebanon could emerge as Syria's indispensable financial window on the world.

This is your customer speaking

Boeing made close contact with airlines in the development of its 777, writes Michael Skapinker

On a grey and blustery day in Seattle last month, a new Boeing 777 took off from the local airfield to the cheers of the company's employees.

Tomorrow, the aircraft, the US manufacturer's first new model in 13 years, makes its maiden commercial flight from London to Washington DC in the colours of United Airlines.

Mr Frank Shrontz, Boeing's chairman, says this will be the last passenger aircraft model launched by any manufacturer this century. On it rests Boeing's hopes of remaining the world's leading aircraft maker and of resisting the challenge of Airbus Industrie, its increasingly confident European competitor.

Boeing's executives say building the twin-engine aircraft, which carries up to 400 passengers, changed the way the company operated, breaking down barriers between its specialists, introducing new technology and making closer contact with customers.

Mr Philip Condit, who headed the 777 project until becoming Boeing's president in 1992, says: "We made a whole bunch of evolutionary changes that had a revolutionary result. It's a turning point."

The new aircraft, which sells for $120m (£75m) before discounts, was manufactured against a background of some of the worst market conditions the industry has seen. When Boeing decided to build the aircraft in 1990 it employed 161,000 people and recorded annual net earnings of $1.39bn. By the end of 1994, staff numbers were down to 117,000 and net earnings were $856m.

A few days after Boeing workers cheered the 777's take-off, they heard that Boeing job losses this year would be 12,000, more than the 7,000 announced earlier in the year – although about half of those leaving will be taking voluntary early retirement.

Last year provided Boeing with a shock when Airbus recorded more orders than it did – the first time Boeing had been deprived of the top slot since the advent of the jet age. Boeing executives play down the significance of Airbus's achievements, saying it is deliveries which count.

Nevertheless, the shadow of Airbus has hung over the entire 777 project, on which analysts estimate Boeing spent $5bn. Mr Gordon McKinzie, the 777 programme manager at United, describes how his company openly played Boeing and Airbus off against each other in its bid to get a better deal and a better aircraft.

Towards the end of the 1980s, United, the world's largest airline, realised that it would need a replacement for its McDonnell Douglas DC-10 fleet, which would be 25 years old in 1996. In October 1990, the airline invited Boeing and Airbus, as well as McDonnell Douglas, to Chicago to present their arguments for re-equipping the United fleet.

United also invited the world's three leading aircraft engine makers, General Electric and Pratt & Whitney of the US and Rolls-Royce of the UK, to say why they should be allowed to power whatever aircraft was chosen.

United called the six companies in one at a time to put their arguments over 70 hours. United had to choose between Boeing's proposed 777, the Airbus A330 and A340 and the McDonnell Douglas MD-11.

United was impressed by Airbus' 'fly-by-wire' technology, which allows the wing and tail surfaces to be controlled electrically rather than mechanically.

United decided, however, that the 777, powered by Pratt & Whitney engines, seemed the better aircraft. But the airline told Boeing that the aircraft would have to be designed and made differently from the manufacturer's previous models.

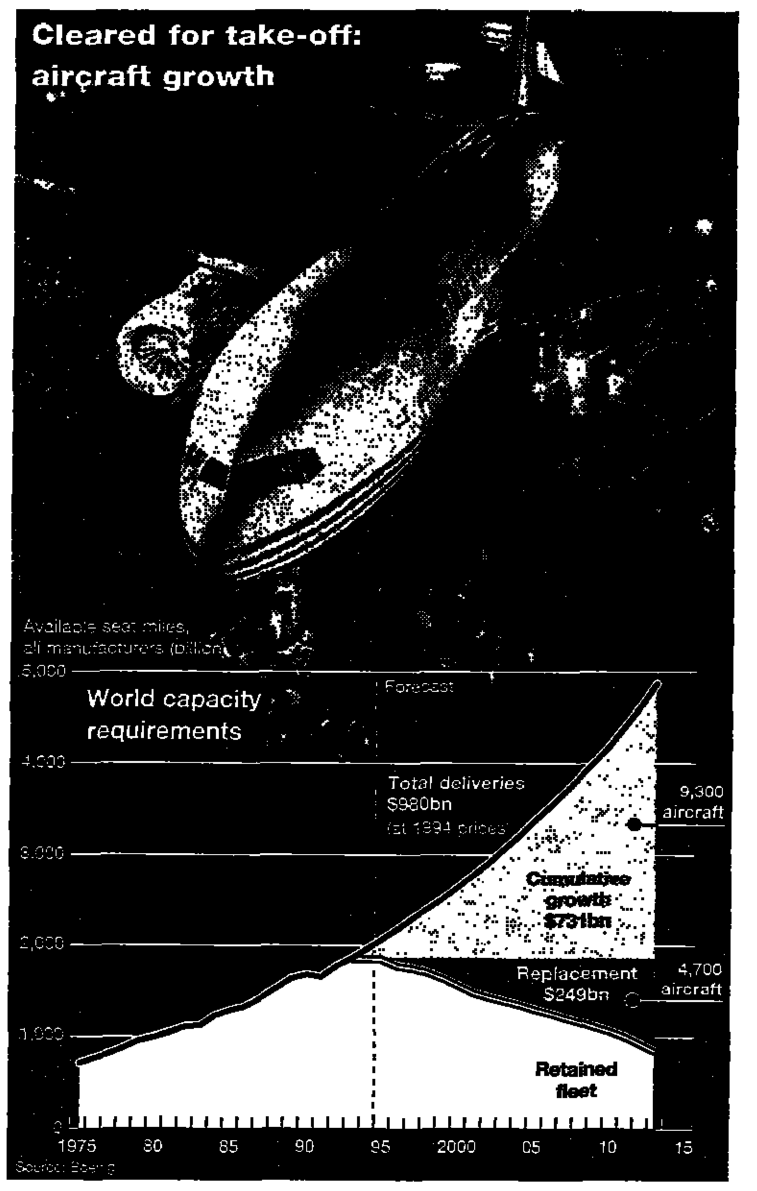
First, United said the 777 – bigger than the 767 but smaller than the 747 – would have to work properly from the day it was delivered. United did not want a repeat of its experience with the Boeing 747-400 when it, and other airlines, had to sort out early faults.

Mr McKinzie says: "What we had in mind was orchestrating a departure from our past practice of ordering an airplane, waiting five years, then giving Boeing a final payment and flying away hoping everything aboard was as we expected."

Second, United would help design the 777 from the beginning. Mr McKinzie says: "We moved right into Boeing. We virtually infiltrated the Boeing process."

Boeing decided to go further, inviting eight airlines to help it design the aircraft. They were United, American Airlines, Delta Air Lines, British Airways, Cathay Pacific, Qantas, Japan Airlines and All Nippon Airways.

Three Japanese companies, Mitsubishi Heavy Industries, Kawasaki Heavy Industries and Fuji Heavy Industries, made 20 per cent of the airframe.



The airlines and Boeing decided the aircraft would have fly-by-wire technology. It was designed entirely on computer, so that no mock-up had to be built.

The involvement of the airlines saved Boeing from several errors. United told Boeing that the level of the 777's fuelling panels meant the aircraft would need different fuelling trucks from those used for the 747. Boeing agreed to change the position of the fuelling panels so that the same trucks could be used for both models. United said it did not want silver plated wiring in the fuel tanks because past experience had shown that this corroded. Nickel plated wiring was used instead.

Before the 777 was completed, it had attracted 144 firm orders and 99 options. United was the largest customer with 34 orders and 34 options. Boeing claims that since work on the 777 started in 1990, the aircraft has taken a clear sales lead over the A330 and A340 and the MD-11.

Airbus concedes that the 777 has outsold the A330 and A340 since 1990, although the two companies disagree on how big a lead Boeing has. Airbus scoffs, however, at Boeing's claims that it has broken new ground in the design of the 777. Airbus says its A320 aircraft, which entered service seven years ago, was 90 per cent computer-designed. The A340, which went into service in 1993, was completely computer-designed.

Airbus also asks why Boeing should regard listening to its customers as such a feat. This is a question which manufacturers in many industries might repeat. Mr McKinzie says: "At no time did Boeing turn us away or ignore us." Why should the leading customer of a $5bn project even raise the possibility of being ignored?

Mr Gerald Greenwald, United's chairman, says the tradition of the aircraft industry is largely to blame. He says: "Historically, airplanes have been designed by engineers for engineers and the engineers have been left to determine what's good for everyone else."

Mr Condit says that while other sectors, such as motor manufacturers, were being forced to listen to their customers, many in the aircraft industry thought of themselves as a special case. "There's a temptation to say: 'Airplanes are different. We have a product that leaves the ground.'"

Mr Shrontz says he is confident Boeing can maintain a worldwide market share of 60 per cent to 65 per cent in spite of the progress Airbus has made.

The challenge now will be to begin earning a return on the large investment in the 777. The orders accumulated since 1990 dried up last year, when the aircraft did not attract any new buyers. Of the eight airlines which helped design the 777, three – American, Delta and Qantas – have not ordered any.

However, Boeing says airlines will buy more than 15,000 aircraft over the next 20 years. Mr Nicholas Heymann, an analyst at NatWest Securities in New York, believes the 777 is poised to gain several orders. He says Boeing's ability to produce a new aircraft with fewer people has made him optimistic about its future. "Boeing's ability to remain competitive is not going to be challenged," he says.

Homeowners at top of Tory bribe list

Kenneth Clarke is fond of remarking that good economics and good politics are indistinguishable. I suspect that, most of the time, he means it. He must also know that such sentiments cut no ice at all with the average Tory MP.

Take the latest clamour over the plight of the nation's homeowners. Last month, those doughty, brave, ever-consistent souls on the Conservative backbenches were telling the chancellor he must lop three or four pence off the basic rate of income tax. Before that, they wanted him to reassert traditional Tory values by restoring generous tax breaks for married couples. Next month, no doubt, we will hear calls for a better deal for motorists. Then of course, there are the hard-pressed entrepreneurs and the white-collar workers trying to match a two-year employment contract with 10 years of school fees. The list is endless, but there must be *something* for once-loyal supporters of the Tory cause.

You will by now have got the drift. Most Conservative MPs believe that their remaining slim, hopes of clinging to power depend on three things: bribery, bribery and bribery. The chancellor must stuff as much as he can into the pockets of as many as he can before the election. Never mind all that highbrow rhetoric about an export-led, low-inflation recovery. The voters who must be persuaded to return to the Conservative fold want short-term gratification. It is Mr Clarke's job to deliver it. If the price is a bit more borrowing and a bit more inflation, so be it; there will be time enough to deal with any problems after the election.

It is not hard to see why homeowners with large mortgages have shot to the top of the list of those judged most deserving of these essential pre-election handouts. For most of the 1980s, home ownership was at the heart of the Tory dream. Prices rose steadily and then spectacularly, enriching effortlessly an electorate marching enthusiastically under Margaret Thatcher's standard. To buy a house or a flat was to take a stake in popular capitalism; to make an easy £10,000; and to vote Tory.

Now prices in some parts of the country are between 30 per cent and 40 per cent below their 1989 peak, more than 1m homeowners are trapped in their properties by negative equity, and about the same number are struggling to meet their repayments. The market shows no sign of reviving. Even if one discounts the deliberately dismal forecasts of the building societies and housebuilders campaigning for Treasury hand-outs, there is little prospect of any significant pick-up before an election due by the spring of 1997. And, since housing accounts for about 50 per cent of total personal wealth, it is not surprising consumer confidence has been badly dented. What is worse, those who have suffered most live in London, the south-east and south-west – the regions which, as it happens, will decide the outcome of the election.

The chancellor must stuff as much as he can into the pockets of as many as he can before the election

But for all the handwringing of his backbench colleagues, Mr Clarke must know that there is nothing of consequence he could, or should, do. It was tactless, not to say rather insulting, of John Major to seek to absolve his government of all blame for the present position. But he should end now the pointless speculation about possible quick fixes.

There is no shortage of suggested wheezes to "kick-start" the market – the building societies have made sure of that. Those trapped by negative equity could be given tax relief on realised losses; mortgage interest relief could be increased for first-time, or for all, buyers; stamp duty could be reduced or removed; and the government could delay plans to curb mortgage interest benefits for the unemployed. Of that list, only the last proposal makes any sense, and only in terms of not kicking any harder those unfortunate enough to lose their jobs. The others would have a negligible impact at an extremely high cost.

Tory MPs as well as homeowners must understand sooner or later that the world has changed. There is nothing to prevent a modest house price recovery over the next few years – prices, after all, are at their lowest relative to incomes for more than 25 years, and interest rates are similarly low. But the more fundamental economic forces at work are here to stay. The only way back to fast-rising house prices is through an inflationary, and unsustainable, economic boom.

In such circumstances, the chancellor should be make a virtue out of necessity. He should explain that government policy will be directed not at creating another house price explosion but at preventing it. Economic decisions in Britain have been distorted for too long by the fact that housing offered the surest route to the accumulation of wealth. In future, education, skills and enterprise will count for more than bricks and mortar. We should expect to pay for our housing, not profit from it. The electorate may not like the message but it has the merit at least of being true.

Philip Stephens

OBSERVER

The labours of Jesse Helms

■ Not much of a day for kicking off an annual conference, with the spectre of a 25 per cent budget cut hanging over your head. But the Geneva-based International Labour Organisation has heard it all before, so maybe isn't too worried.

Some ILO delegates with long memories at today's meeting of the UN agency will recall the Nixon administration's cancellation of US membership, in a row over the composition of Soviet bloc delegations.

The boycott was short-lived; by 1980 the US was back, paying its regular 25 per cent whack to the ILO budget.

Now Senator Jesse Helms, Republican chairman of the Senate Foreign Relations Committee, has attacked the ILO's "archaic" structure, saying it seems "ill-suited to an era in which the role of labour unions is vastly diminished."

Naturally, American labour unions disagree. Rather odder is that US business also thinks Helms is barking up a bonsai. Cutting funds to the ILO would "do serious damage to US economic interests," says Abraham Katz, president of the US Council for International Business.

But even if Helms doesn't get his way in altogether eliminating this year's $64m US contribution, some cuts look inevitable.

Observer has a suggestion to resolve the problem. Make all UN agencies, and the UN itself, less dependent on the dollar. Washington's quarter share of the UN budget gives it a unique veto on UN programmes and a disproportionate influence on policy. Let Japan and Germany pay a bigger share and the US a smaller one. In return, Japan and Germany would naturally want permanent seats on the UN Security Council.

That would of course dilute US influence; which Senator Helms might like, after all.

Sticky fingers

■ You've all heard of the Velvet Revolution, when communism collapsed in the former Czechoslovakia in 1989. Welcome now to the Velcro Aftermath – when your hard-earned cash sticks like glue to Czech hands.

It's come to Observer's attention that in the Czech Republic foreigners are now often being charged several times more than what Czechs pay. This year as many as 100m visitors might – normally unwittingly, as prices are often written out in full, rather than given in figures – find themselves subject to this perfectly legal levy.

Maybe things will change from July, when the Czech Trading Inspectorate, the consumer watchdog, gets new rules allowing the imposition of fines for "discriminatory" pricing.

The bark may of course be much worse than the bite; in which case, Slovakia is a very nice place, we're told.

In-flight games

■ As a mortified South Africa deplores the conduct of its sporting heroes in Saturday night's world rugby cup brawl with Canada, the promotional leaflet distributed at South African Airways check-in counters takes on an ironic note. "Please guys, play by the rules," pleads the headline above a photograph of a beaming Francois Pienaar, the Springbok rugby captain. Quite right – good old SAA, spearheading the battle to clean up South African rugby.

"Have fun!" it continues. "But don't go overboard... we trust that you'll be good sports... Thanks for playing the game."

Hang on a minute. Closer inspection of the leaflet reveals that these admirable exhortations are addressed not to the players – but to SAA's passengers. They can't *all* be rugby players?

Overwhelmed Newt

■ Updating Bernard Shaw, we might say that those who can, do; while those who can't, fantasise. So why is Newt Gingrich, the US Speaker, writing imaginative novels? Surely he hasn't already given up on becoming the next president?

Not that Bob Dole, Republican senate leader and a Gingrich rival for the nomination, is too upset at Gingrich's scribbling. For Dole, who has criticised Hollywood for making movies with too much sex and violence, might find Gingrich's novel a handy stick when the Republican punch-up really gets going.

At the weekend Dole was on a TV chat show, being pressed for comments on the following extract from Gingrich's book: "He was overwhelmed by the sight of her, the shameless pleasure she took in her own body. Suddenly the pouting sex kitten gave way to Diana the huntress. She rolled onto him, sitting athwart his chest, her knees pinning his shoulders. 'Tell me, or I'll make you do terrible things'."

Like run for the presidency...

Shocking drivers

■ Anyone who has been ferried round Buenos Aires in a taxi might feel that the protective devices need to be given to the passenger, not the driver. But after a spate of robberies and four murders in the last seven months, Buenos Aires taxi drivers are, the Argentine newspaper *Clarin* says, contemplating arming themselves with either gas canisters, electric prods, or a warning system to alert police. Make sure you've got the right change...

The Financial Times

100 years ago

The Quebec Central

We have had frequent occasion of late to call attention to wonderful examples of recuperation in depreciated securities. American railroads have furnished many such, and another instance worth mentioning is to be found in the Quebec Central. At the outset, the Quebec Central got into bad hands locally. The English financiers, after a great deal of trouble with their Canadian associates, had to take over the line themselves, complete it and run it under their own control. In this they were much more fortunate than in their original venture. A level-headed Welshman, Mr Frank Grundy, was sent out and soon succeeded in bringing order out of chaos.

50 years ago

Big socialist defeat

Toronto: All groups were decidedly stronger on the Stock Exchanges following the decisive defeat of the Socialist Party in the Ontario elections. Traders credited the strength to the rejection of the Commonwealth Federation Party, which promised socialisation of banks and industries. The Conservative Party was re-elected with 66 out of 90 seats.

FINANCIAL TIMES
Tuesday June 6 1995

Blackout threat follows defiance of watchdog

Berlusconi's TV channels face ban over advertising

by Robert Graham in Rome

The three television channels of Mr Silvio Berlusconi, the media magnate and politician, risk a blackout today if they persist in their defiance of Italy's media watchdog commission.

The networks are refusing to carry 13 publicity slots ordered by the commission to balance coverage in the run-up to Sunday's three referendums on the future of commercial television.

Mr Berlusconi risks losing two of his three channels if the vote goes against him. Yesterday, the former premier claimed the commission was biased, acting on the orders of the political left which had promoted the referendums.

Refusal to obey the commission could mean a fine of up to L500m ($305,000). The commission also has the power to take the channels off the air for a period lasting from one hour up to 15 days.

If the channels are blacked out normal programming would be replaced by the message: "Transmissions have been stopped for failing to respect the laws for balanced coverage during elections."

Mr Berlusconi, whose Fininvest empire accounts for 45 per cent of the national television audience, appeared to be deliberately courting the blackout to turn the situation to his advantage by claiming to be victimised.

A group of his supporters in Milan yesterday filed an injunction with a local administrative court challenging the legality of the commission's action.

In the three referendums on commercial television, voters are being asked if they want to limit ownership to one channel, cut advertising during films and limit advertising to two channels.

To fight the three proposals Mr Berlusconi has used all his media muscle in a campaign consisting of a heavy concentration of advertising, combined with the the overt endorsement of Mr Berlusconi, by the best-known presenters and showbiz figures on his channels.

The advertisements have been reduced to warnings to viewers that they will lose their favourite soap operas. In defending advertising breaks during films, each film is preceded by a cartoon explaining that Fininvest films are free – a dig at the RAI state television which extracts a licence fee from viewers.

The anti-Berlusconi camp has produced an advertisement showing a famous scene of Marcello Mastroianni and Sophia Loren from *A Particular Day*. When they are about to kiss the film is cut and a voice is heard saying: "One doesn't cut emotions like this" and the slogan "Vote Yes those Italians who like films" appears.

Concern over Fininvest's excessive bias led to several complaints over recent weeks to the commission. After several warnings the commission decided to impose sanctions last week.

Ricoh to shift some design work out of Japan

By Michiyo Nakamoto in Tokyo

Ricoh, the Japanese maker of imaging equipment, is shifting design work for advanced cameras to Taiwan in a move that highlights the impact of the strong yen on Japanese manufacturers and their increasing willingness to conduct research and development overseas.

Ricoh's decision follows similar though less drastic moves by other Japanese companies, which have traditionally kept the design and development of leading-edge technologies at home.

Sharp, one of Japan's fastest growing electronics companies, plans to establish a multimedia research laboratory in the US in July. NEC, another large electronics group, set up a research and development facility in Bonn last summer to develop parallel-processor computing.

A survey published yesterday by the Nihon Keizai Shimbun, the leading economic daily, suggested 60 per cent of Japanese companies responding to a questionnaire were reviewing their R&D activities.

Of those, a third said they were strengthening R&D facilities overseas.

Moves to shift R&D overseas reflect the growing pressures Japanese companies have been facing since the yen's sharp appreciation against other leading currencies.

While the country's big manufacturers have had to shift production of hardware to lower cost bases overseas, they had been loath to move either R&D or the manufacture of advanced products outside Japan. That reluctance stemmed from a concern that a move offshore would contribute to the "hollowing out" of the country's industrial base and the loss of jobs, which would undermine social stability.

A study by the Japan External Trade Organisation published in March showed that the adverse impact of the yen's rise was forcing more Japanese companies to reorganise their worldwide operations in order to raise efficiency.

Another factor driving R&D abroad is Japanese companies' need to respond more rapidly to market demands in their global operations. Sharp says setting up a multimedia R&D centre in the US will enable it to pass on successful developments immediately to its production and sales bases there.

At the same time, Japanese companies are increasingly moving into areas where the expertise is more often than not found outside Japan. In multimedia and advanced communications, for example, the US is ahead of Japan in many leading-edge technologies, particularly in software.

EU to push states for urgent action on single market laws

By Caroline Southey in Brussels

Mr Mario Monti, the European Commissioner responsible for the internal market, will today urge member states to take urgent action to remove barriers in public procurement and insurance in the European Union.

He will deliver his message to EU ministers at an internal market council meeting in Luxembourg armed with the latest data *showing the leaders and laggards* among member states in adopting laws aimed at creating a single market.

The worst performers include Germany, Greece and Finland, which have implemented less than 90 per cent of the 219 measures listed in a 1985 single market white paper to be included in national legislation.

Mr Monti will also stress that progress has been particularly slow in areas such as public procurement, insurance, the free movement of people and intellectual and industrial property rights. The member states with the best record of adopting EU *legislation are Denmark, Luxem*bourg, France, the Netherlands, Spain and Sweden, all of which have higher than 95 per cent, ahead of the average rate of 92.6 per cent for 14 member states. The UK is marginally ahead of the average.

The figures include statistics from Sweden and Finland for the first time.

*The Commission is emphasis*ing quality as well as quantity in the application of single-market laws. Infringement proceedings are pending against a number of member states for incorrect implementation of laws covering public procurement, right of residence and the right of residence for students.

The average level of adopting laws covering intellectual and industrial property rights is 73 per cent, while just five members have adopted the laws covering mutual recognition of professional training and education.

The area causing greatest concern is public procurement. "We *are not satisfied at all with the* progress being made in this sector and the economic effects are huge," an official said.

There has also been growing concern that laws governing the single market are not applied equally and effectively in all member states. Penalties for breaking the laws are harsher in some countries than others.

*As part of the drive to see legis*lation applied uniformly, Mr Monti has served notice that he wants a commitment from member states that they will impose sanctions that are effective, proportionate and dissuasive.

Ministers will also look at proposals which would for the first time provide EU-wide rules for the legal protection of databases.

The directive would provide a two-tier system of protection. Copyright would be limited to the design of the database while separate protection, lasting 15 years, would cover the content.

UN hostages

Continued from Page 1

slightly above its authorised strength.

That could create a need for a new Security Council resolution, which Russia could veto.

Mr Radovan Karadzic, the Bosnian Serb leader, warned yesterday that the expanded UN force would not be able to force its way through overland supply routes.

The use of these routes would still be subject to Serb consent.

UK and US air travel deal

Continued from Page 1

flights shortly. Under the agreement, the US has accepted a UK offer made last year which gives US carriers unrestricted access to any regional airport in the UK.

Both sides also agreed to increase code-sharing arrangements under which an airline sells seats on a flight operated by another carrier.

The agreement follows two days of talks in Washington last week which finished with the two sides saying a number of minor issues still had to be resolved. Yesterday, the governments said they had reached full agreement.

The agreement follows a warning last week by Mr Neil Kinnock, European Union transport commissioner, that EU countries did not have the right to negotiate with the US individually. The UK has rejected this view.

THE LEX COLUMN

Lotus eaten

In Homer's Odyssey, the lotus eaters were the ultimate escapists. They lolled around munching lotuses, forgot their past and never returned home. IBM's $3.3bn attempt to gobble up Lotus has a hint of escapism too. *Though the computer giant's core* mainframe business has been enjoying a resurgence, long-term prospects are dim. Buying Lotus may seem an excellent way of putting the past behind it and springing into a brighter world.

Lotus itself has had a bumpy ride. Its personal computer application programmes, notably the 1-2-3 spreadsheet, are losing out to savage competition from Microsoft. But the company's Notes programme is the leading product in "groupware", one of the hottest segments of the software industry, which allows groups of employees to share information.

The appeal of Notes goes beyond its own sales prospects. If it could be established as a dominant networking standard, it could become a platform for selling other products – in much the same way that Microsoft has used its Windows operating system.

However, there must be scepticism over IBM's ability to turn Notes into a pot of gold. The computer giant does enjoy strong finances, which would be helpful given that Lotus has been struggling to fund the cost of developing Notes and maintaining its older products. IBM's extensive marketing network may also help Notes establish a dominant position, though the group has not been successful in selling other software products.

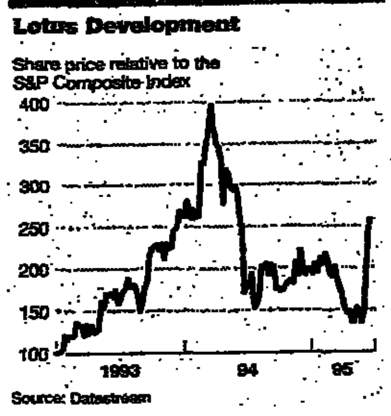
The real worry is that IBM's bureaucratic culture could crush Lotus's entrepreneurial spirit. This is doubly risky since the bid is hostile. Unhappy software programmers could easily *walk. IBM's promise to take a hands*-off approach to managing Lotus is clearly intended to avoid such an outcome. But giving an acquired company a free rein is also risky, as Sony found with Columbia Pictures.

It is easy to understand IBM's aspirations. With its mainframe business enjoying an Indian summer and its personal computer business searching for direction, it would be great to *develop a strong presence in network*ing. But business success is not built on aspiration.

In marking down IBM's share price yesterday, investors expressed their scepticism about the bid. Many would prefer the computer company to concentrate on the hard task of cutting costs and reforming its culture. Shareholders might be let off the hook if another bidder trumped IBM's offer. But with a high price on the table the chances are not big.

FT-SE Eurotrack 200: 1389.9 (+10.0)

Lotus Development



Source: Datastream

Anglian Water

Anglian Water was under pressure *to give something back to customers.* That much was obvious following North West Water's recent attempt to alleviate allegations of corporate greed by offering customer rebates. Anglian has struck a rational balance. Its £12m rebate may represent only 2 per cent of an average bill. But it compares favourably with £9m of efficiency gains achieved last year, or the £10m rise in dividend payments.

The timing is favourable for Anglian. It coincides with a £17m drop in pipeline maintenance charges because of accounting changes. The problem is that Anglian's action yesterday has raised expectations of further give-aways. *Its management stu*diously avoided outlining how future efficiency gains might benefit customers. But after launching another £20m a year cost savings programme, its customers will expect more. Such rebates are effectively made in the hope of fending off later regulatory pain. Anglian should maximise such political gains by outlining a strategy on customer benefits.

*The rebates may have cut share*holders' profits, but the blow was softened by hints of the water sector's first share buy-back programme. Swapping equity for debt makes great sense. Companies get tax relief on interest payments. The balance sheet gearing of close to 70 per cent that would result from a 10 per cent buy-back should dissuade the management from further costly diversification. Given Anglian's £6.3m losses from its non-regulated businesses last year, this looks desirable. And Anglian could increase dividends per share by 11 per cent, while maintaining the same total dividend pay-out.

Even excluding the benefits of buy-backs, Anglian shares offer a prospective dividend yield almost 50 per cent higher than the market average. This reflects the risks of harsher regulation under a Labour government. But the prospect of an enhanced dividend pay-out in the short-term should offer potential share price gains.

BAA

BAA's financial flight-path remains monotonously true. Its twin motors are a relentless rise in passenger numbers and continued increases in the amount they spend as they pass through the company's airports. Both engines are revving up. The group, studiously conservative, increased this year's passenger growth forecasts from 4 per cent to between 5 per cent and 6 per cent. That is partly because the impact on passenger volumes from Eurostar, the recently introduced train service between London and the French and Belgian capitals, has been less than expected. Meanwhile, spending per passenger is accelerating as refurbishment at the London terminals draws to a close. The performance at newly refitted shopping areas augurs well for the future: in the last quarter, spending was up 5 per cent. Lastly, the more relaxed regulatory regime for airport charges should boost revenues from this year on.

Unlike many privatised companies, BAA has not rushed into ill-considered *overseas diversification.* The group has significant expertise in retailing, property, and operating airports. It would be too easy for BAA to sell its skills cheaply by taking small stakes in privatised airports. So its softly, softly, approach is to be applauded. The prospect of a large participation in the Australian privatisation, and a 10-year management contract at Indianapolis, are in the right direction.

That does not mean no clouds loom. The Accounting Standards Board is proposing changes to the treatment of deferred taxation which would hit BAA hard due to its large capital investment programme. Cash flow and dividends would be unaffected. But the consequent substantial reduction in net assets and earnings would undoubtedly influence sentiment.

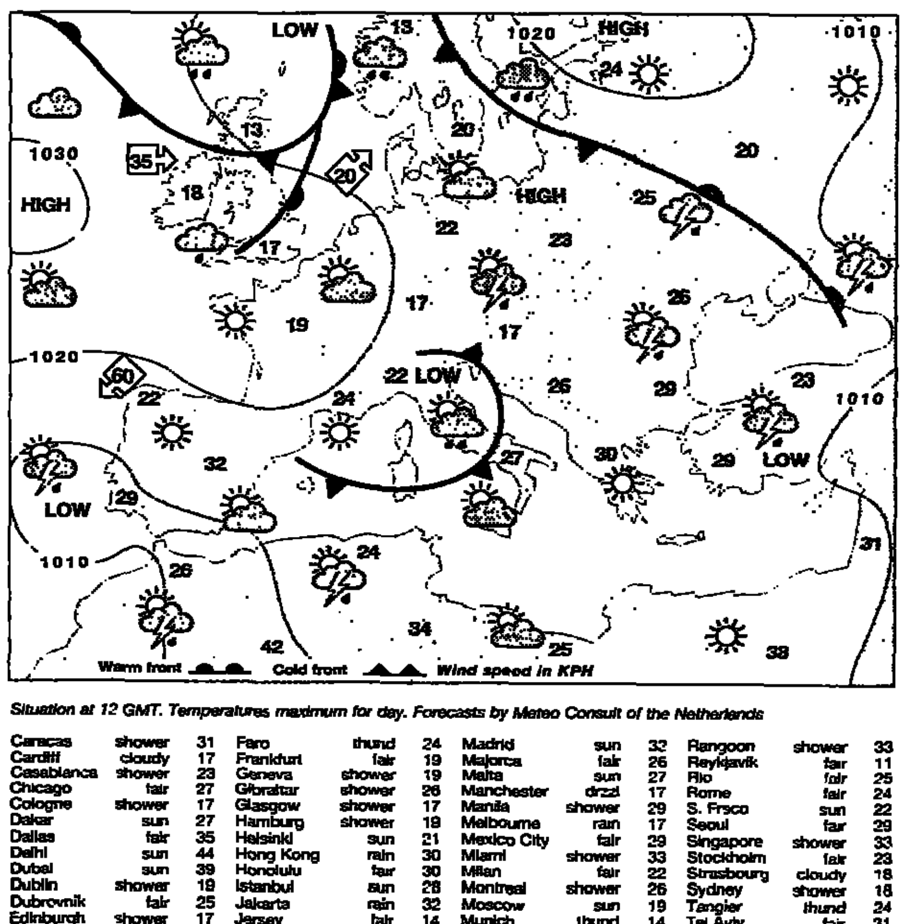
FT WEATHER GUIDE

Europe today

Low pressure north of Scotland will move east. An associated frontal zone will cause cloud and rain in the northern British Isles but clearing will occur during the afternoon. A ridge of high pressure will bring sunny conditions to western France, northern Portugal and Spain. Southern England, Ireland, the Low Countries and Germany will have sunny spells and showers. Low pressure will cause thunder showers over southern Portugal, the Alps and the Balkans. An old frontal zone from Sweden towards the Black Sea will cause cloud and some thunder showers. East of the front, in southern Italy and Greece, it will continue warm and sunny.

Five-day forecast

Northerly winds between high pressure west of Ireland and a depression over the North Sea will cause cool and showery conditions in north-west and central Europe. Eastern Europe will continue warm with thunder showers while the CIS will stay sunny. On Thursday, a lot of rain is expected in southern Norway and Sweden. The eastern Mediterranean coasts will have thunder showers but will become more stable later in the week.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	40
Accra	thund	31
Algiers	fair	24
Amsterdam	fair	16
Athens	sun	30
Atlanta	cloudy	33
B. Aires	shower	18
B.ham	drzzl	18
Bangkok	thund	35
Barcelona	sun	22
Beijing	fair	30
Belfast	rain	18
Belgrade	shower	24
Berlin	shower	21
Bermuda	sun	27
Bogota	cloudy	20
Bombay	fair	34
Brussels	fair	16
Budapest	thund	23
C.hagen	fair	19
Cairo	sun	34
Cape Town	fair	16
Caracas	shower	31
Cardiff	cloudy	17
Casablanca	shower	23
Chicago	fair	27
Cologne	shower	17
Dakar	sun	27
Dallas	fair	35
Delhi	sun	44
Dubai	sun	39
Dublin	shower	19
Dubrovnik	fair	25
Edinburgh	shower	17
Faro	thund	24
Frankfurt	fair	19
Geneva	shower	19
Gibraltar	shower	26
Glasgow	shower	17
Hamburg	shower	19
Helsinki	sun	21
Hong Kong	rain	30
Honolulu	fair	30
Istanbul	sun	28
Jakarta	rain	32
Jersey	fair	14
Karachi	sun	38
Kuwait	sun	41
L. Angeles	sun	22
Las Palmas	fair	25
Lima	sun	24
Lisbon	fair	31
London	drzzl	18
Lux.bourg	fair	16
Lyon	cloudy	20
Madeira	shower	23
Madrid	sun	32
Majorca	fair	26
Malta	sun	27
Manchester	drzzl	17
Manila	shower	29
Melbourne	rain	17
Mexico City	fair	29
Miami	shower	33
Milan	fair	22
Montreal	shower	26
Moscow	sun	19
Munich	thund	14
Nairobi	thund	26
Naples	fair	24
Nassau	sun	32
New York	fair	27
Nice	sun	23
Nicosia	sun	32
Oslo	shower	21
Paris	fair	19
Perth	shower	20
Prague	thund	19
Rangoon	shower	33
Reykjavik	fair	11
Rio	fair	25
Rome	fair	24
S. Frsco	sun	22
Seoul	fair	29
Singapore	shower	33
Stockholm	fair	23
Strasbourg	cloudy	18
Sydney	shower	18
Tangier	thund	24
Tel Aviv	fair	31
Tokyo	rain	23
Toronto	fair	26
Vancouver	shower	16
Venice	shower	22
Vienna	thund	19
Warsaw	fair	23
Washington	cloudy	26
Wellington	shower	12
Winnipeg	rain	24
Zurich	shower	16

FINANCIAL TIMES
COMPANIES & MARKETS
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Tuesday June 6 1995

IN BRIEF

Spain to say 'Adiós' to INI

Spain's Instituto Nacional de Industria, the state holding concern set up by the Franco regime in 1941 and now at the head of a group of companies with annual sales of about $20bn, is set to disappear under reorganisation plans from the industry ministry. Page 19

French banks deny merger plan
Two of France's biggest financial institutions – Banque Nationale de Paris and the UAP insurance group – said they had discussed pooling their activities with a third, the Suez investment and financial services group, but stressed they had not agreed any specific merger plan.
Meanwhile Société Générale, one of its leading private sector French banks, has written to clients of Crédit Lyonnais, its state-owned rival, trying to persuade them to transfer their business.
Page 18

Aircraft maker cuts through workers
Embraer, the Brazilian aircraft maker, is asking one in three of its workers to take voluntary redundancy. Page 19

Hong Kong watches Mr Li's actions
The decision by Mr Li Ka-shing, Hong Kong's leading entrepreneur, to move control of Cheung Kong, his flagship property company, offshore just two years before China regains the colony reminded many of the adage "actions speak louder than words". Page 20

Emap to tune into Metro radio
Emap, the UK media and exhibitions group, wants to expand in commercial radio and will be looking at the Metro group following the announcement yesterday that the Newcastle-based broadcaster's two largest shareholders want to sell their stakes.
Page 22

Ladbroke sells US property
Ladbroke, the UK hotels and betting group, has cut its property portfolio by one-fifth with the sale of the Bay Colony Corporate Center in Boston, Massachusetts, for $183m to The Shorenstein Company, a property group based in California. Page 22

A drop in the ocean from water group
Anglian Water, the UK utility, will refund each of its customers £6 ($9.42) this year. Consumer groups say the rebate is a drop in the ocean compared with the company's hefty dividend increase and share buy-back programme. Page 22; Lex, Page 16; Editorial Comment, Page 15

Accountant sees growth in eastern Europe
Price Waterhouse, the accountancy firm, offset disappointing fee income results in the UK by pointing to growth of 60 per cent in eastern Europe.
Page 22

Electrocomponents shares advance
Shares in Electrocomponents rose 5.5 per cent yesterday after the electronic, electrical and mechanical components distributor reported an increase in pre-tax profits from £72.7m to £86.1m.
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Measures to boost South Korean market
After South Korea's general share index hit a low for the year on May 27, the government announced a package of market-boosting measures.
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Companies in this issue

Market Statistics

Chief price changes yesterday

NEW YORK ($)				TOKYO (Yen)			
Rises				Rises			
[illegible]	46	+	1	Calsonic	575	+	18
[illegible]	61⅛	+	2⅝	Chugai Pharm	890	+	40
[illegible]	13⅝	+	1	Ikara Chem	842	+	32
[illegible]	60⅝	+	28⅝	[illegible]	298	+	22
[illegible]	48⅝	+	2	Jap Wire&Chn	474	+	50
Falls				Falls			
[illegible]	[illegible]	–	1⅛	Tokyoto	440	–	26
LONDON (Pence)				HONG KONG (HK$)			
[illegible]							

India's leading bank launches share offer

By Mark Nicholson in Bombay

India's leading financial institution, the Industrial Development Bank of India, yesterday formally launched the country's biggest public share offering with an issue designed to raise Rs23.7bn ($754m).

The IDBI was formed in 1964 as India's premier state industrial development institution. The Indian government last October decided to allow the development bank, the world's 10th largest, to float up to 49 per cent of its stock.

The offer, which opens on July 5 for seven days, will be of 168m shares priced at Rs130 each, representing a 25 per cent stake in IDBI. The government will offer an additional 2 per cent stake from its holding.

Mr S. H. Khan, IDBI's chairman and managing director, said that on present values, the book value of the shares would be Rs75, but the lead managers recommended a price based on the bank's pre-eminent position in India and its sound profit record and prospects.

He said the issue was designed to meet the bank's funding requirements and strengthen its equity base to permit further borrowing, with a view to lending to big power, telecoms, oil refining and steel projects, which since 1991 have been open to private sector investment. The issue will improve IDBI's debt-equity ratio to 5-1 from 8-1. The bank has a total asset base of Rs340bn.

The bank has financed itself through its own operations for the past three years, but has pinned ambitions for further growth to this first public share offering.

Mr Khan said the bank's aggregate assistance to Indian industry exceeded Rs900bn by the end of the last financial year.

The institution has been central to the establishment of other bodies, including the Securities and Investments Board of India, the stock market regulator; the country's export-import bank and the on-line National Securities Exchange (NSE). Its activities include merchant banking, equity investment, fund management, rupee and foreign currency lending. IDBI's first commercial banking operations are expected to commence this year.

The bank's audited results will be published later this month, but Mr Khan expected annual net profits of Rs7.7bn, a 17 per cent improvement. The bank has reported compounded annual growth rates of 27 per cent in loan sanctions, 21 per cent in disbursements and 30 per cent in profits over the past five years.

The issue's lead managers, which include SBI Capital Markets, ENAM Financial Consultants, DSP Financial Consultants, J. M. Financial and Investment Consultancy Services and the Bank of Baroda, expect a strong response, despite the recent weakness of India's primary and secondary share markets. The issue will be listed initially on the Bombay Stock Exchange and the NSE.

Mr Nimesh Kampani of J. M. Financial, said the issue price of Rs130 represented a price-earnings ratio of 8.6 on earnings at the end of March. The bank expects net profits to rise to Rs13bn by 1997 on total income of Rs58bn. There are no plans for further issues to reduce the state's holding to 51 per cent.

Louise Kehoe, Paul Taylor and Alan Cane report on IBM's bid for the software house which some see as a 'merger made in heaven'

The risks of adopting the Lotus position

International Business Machine's $3.3bn unsolicited bid for Lotus Development, the US software house best known as developer of the 1-2-3 spreadsheet program, is a hugely risky but ambitious move by the world's largest computer manufacturer.

Analysts yesterday applauded the bid which one said could lead to a "merger made in heaven". IBM has been recovering from several years of heavy losses precipitated by a sharp shift in the data processing industry away from expensive mainframes and towards lower-cost networks of personal computers (client-server architectures).

Lotus, after making its mark with 1-2-3 in the 1970s has since had a lacklustre performance, but has a spectacularly successful product – Lotus Notes – for personal computer networks. It has already sold some 1.7m copies, according to Dataquest, the marketing consultancy.

The two companies complement each other. Observers believe, however, that for IBM the acquisition of Lotus is an important element in its strategy to hold at bay Microsoft, the world's largest software house and the company which has inherited IBM's mantle as the bellwether of the industry.

Microsoft is set to launch in August an advanced software control program for personal computers, Windows 95, which could strengthen its hold on the PC market. Its earlier Windows software now runs on nearly 90 per cent of all the world's 150m PCs. IBM's advanced operating system OS/2 Warp has been on the market since last year but has a share of less than 5 per cent and has made little impression on Windows.

IBM's client server hardware running Warp and Lotus Notes software could represent formidable competition for Windows 95. The logic of such a combination has not escaped industry analysts.

In an open letter last month to Mr Jim Manzi, Lotus's chairman and chief executive, Mr David Coursey, editor of PC Letter, an industry newsletter, called on Lotus to seek a merger with IBM. "IBM is the logical, motivated buyer," he said. "IBM needs Lotus applications." Lotus also has a highly regarded electronic mail product CC:Mail and a powerful word processor, WordPro.

Taking over Lotus is risky for IBM for a number of reasons.

● Hostile takeovers in the software industry are rarely successful. Software houses have few assets other than the intelligence of their staff who leave if they find the deal unsatisfactory.

● IBM has a poor reputation for software. It is the world's largest software house, but its stock is over-engineered, cumbersome mainframe software that customers are forced to take because they have no other option. It has no track record in managing or marketing applications software such as Lotus Notes.

● Mr Lou Gerstner, IBM chairman, has more experience of divestitures than large-scale acquisitions. In previous existences at American Express and R.J.R. Nabisco he was noted chiefly for cost-cutting and restoring balance sheets through disposals. He said: "I have done a lot of acquisitions in my career, also a lot of divestitures. It always looks easy. 'Gee, just think how much bigger we could be, how much more powerful we would be' . . . but an acquisition does not begin until after you have paid the money and all the stories have been written.

"Then you have to deal with how to integrate the company, to merge cultures. In a consumer packaged goods company, or a banking institution you can buy a stand-alone piece, and it can operate on its own. That is where acquisition strategies work."

● Lotus has a marketing and development agreement with AT&T, the largest US telecoms operator, to make Notes available for businesses using the public telephone network. AT&T yesterday refused to comment on the IBM offer or whether it would make a competing bid. If IBM's bid for Lotus succeeds, it would mark a further step in the consolidation and concentration which has been under way in the office software market.

"There is a need to get bigger and to become a certain size to keep growth up," says Mr Victor Basta, UK managing director of Broadview Associates, the consultancy specialising in mergers and acquisitions in the information technology industry.

Two main factors are driving this trend. First, the price of "shrink-wrapped" software products for personal computers is falling. Meanwhile, the investment required to fund the development of innovative desktop products, such as Notes – and market them effectively – is escalating rapidly.

These twin problems are particularly acute for medium-sized software companies such as Lotus. Its proposed $1.5bn merger with Novell in 1990 was abandoned after the two companies failed to agree on board control.

Mr Manzi was seen as the driving force behind that proposed deal but he could not reach agreement with Mr Ray Noorda, then president of Novell, on the number of directors from each side.

Since then the software industry on both sides of the Atlantic has been a hothouse of deals and manoeuvrings. "I think it is fair to say in this particular market almost everyone is having conversations with everyone else," says Mr Basta.

Lotus is widely believed to have held discussions recently with potential partners including Oracle and Novell which itself purchased WordPerfect for $1bn a couple of years ago.

According to Broadview Associates, the total value of US software product and services mergers and acquisitions rose from $2.6bn in 1992 to $5bn in 1993 and reached a record $9bn last year.

However, Mr Basta believes the 1995 total will be even higher. "It seems that the process of consolidation is accelerating," he says. Computer Associates last month announced a $1.7bn bid for Legent, a mainframe software supplier.

Mr Basta believes that an IBM/Lotus deal would make a lot of sense for both companies: "In one fell swoop IBM is buying a whole family of products for the desktop market."

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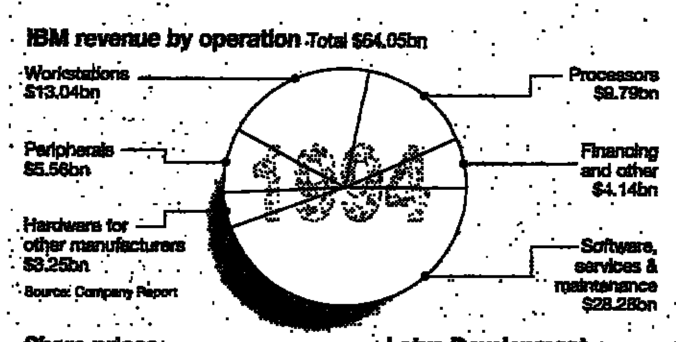
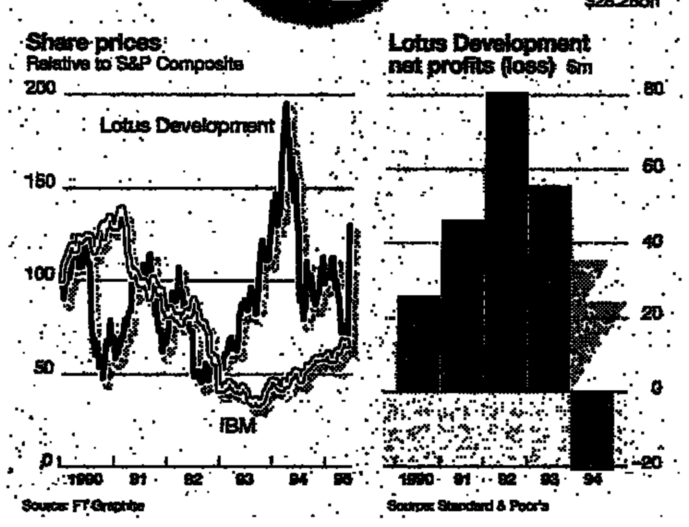
Editorial Comment, Page 15

Big bite for the Big Blue





Dear Jim: We are coming for you . . . ready or not

Extracts of the letter sent to Jim Manzi from Louis V. Gerstner, Jr.

Dear Jim,

IBM has been interested for some time in pursuing a business combination with Lotus. Because you have been unwilling to proceed . . . we are announcing this morning our intention to buy all of Lotus Development Corporation's outstanding common shares.

We believe this is now the fastest, most efficient way to bring our companies together. We have the highest respect for you and all Lotus employees. We believe our companies share similar visions of the future of information technology.

This is truly a win/win opportunity for IBM and Lotus shareholders, employees and customers. With IBM's global marketing and sales capability, we can rapidly grow Notes' user base and vastly increase its sales potential and acceptance as an open industry standard.

We respect the creative environment and entrepreneurial spirit you have fostered at Lotus. We do not want to change that. We believe Lotus's employees are among the best in the industry at developing innovative and successful products. Our intent is to keep Lotus intact and managed out of its current headquarters in Cambridge and to make Lotus primarily responsible for key, complementary IBM software products.

Reserves at UK airport group may be hit by rule change

By Geoff Dyer in London

BAA, the privatised UK airports group, said a new accounting practice for deferred corporation tax could cause a one-off cut in reserves of up to £600m ($967m).

The group, which posted a 14 per cent increase in pre-tax profits, is the first UK company to estimate publicly the impact of the proposed rule change, on which the Accounting Standards Board published a discussion paper in March.

The ASB recommended the practice of "partial provisioning", which allows companies to judge when their tax liabilities will appear, should be replaced by "full provisioning", which reflects the tax ultimately payable on profits.

The proposed standard would have a particular effect on companies with large capital expenditure programmes on which they receive capital allowances. BAA had £440m of capital expenditure last year, part of a £1.4bn three-year programme.

Mr Nigel Ellis, finance director, expected the rule change to come about later this year, which would lead to BAA showing a 35 per cent tax charge, against an effective rate of 24 per cent last year, and a drop in net assets of £300m-£600m.

Mr Ellis said after the rule change, gearing, which was 32.8 per cent at the year-end, would not breach the company's 50 per cent target.

The rise in pre-tax profits to £388m in the year to March 31, from £322m, was in line with expectations, and revenues rose 6 per cent to £1.16bn. Passenger numbers increased 7.1 per cent to 87.7m, with Heathrow ahead 7.5 per cent and Stansted up 20.2 per cent. Mr Ellis forecast that passenger numbers would grow 5-6 per cent this year.

Sir John Egan, chief executive, said the opening of the Channel tunnel had resulted in the loss of 25,000 passengers a week, less than the group had predicted.

Retail income increased 10 per cent to £361.9m, although income per passenger was only 2.5 per cent ahead. BAA expects to sign a 10-year management contract for the Indianapolis airports system in the US next month. It is also part of a consortium that will bid for airports in Australia.

Earnings per share were 16 per cent higher at 27.3p against 23.5p. A final dividend of 6.375p makes a total of 10.125p, a 18 per cent rise.

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Kmart raids The Museum for chief

By Richard Tomkins in New York

Kmart, the troubled US retailing group, yesterday ended its long search for a new chief executive by announcing the appointment of Mr Floyd Hall, a 57-year-old US retailer who once worked for Sir James Goldsmith, the Anglo-French financier.

Mr Hall replaces Mr Joseph Antonini, who resigned under pressure in March. He is also taking over as Kmart's chairman from Mr Douglas Perkins, who reverts to his previous position as a non-executive member of the board.

Mr Hall comes to Kmart from The Museum Company, a privately held store chain that he founded in 1989. The company has 63 stores in the US and Canada selling reproductions of pieces from more than 200 museums worldwide.

Mr Hall was chairman and chief executive of the Grand Union supermarket chain from 1984 to 1989, during which it was owned by Sir James Goldsmith. He previously headed Target Stores, the discount store division of Dayton-Hudson.

Grand Union is undergoing a reorganisation under Chapter 11 of the US bankruptcy code. However, Kmart said Mr Hall had led a successful turnround of the company while he was there, taking it from losses of $115m in 1983 to pre-tax profits of $80m in 1987. The company was subsequently acquired by Mr Gary Hirsch, the US grocery tycoon, in a $1.2bn leveraged buy-out.

Mr Joseph Flannery, chairman of the Kmart board of directors search committee, said Mr Hall had achieved excellent operating and financial results and strengthened the performance of every company he had served, "often at critical periods in their history". At Target – now one of Kmart's strongest competitors – Mr Hall had increased the number of stores from 97 to 205, increased sales from $1.3bn to $3.1bn and nearly tripled operating earnings.

The market welcomed the appointment, marking the shares up $1 to $13⅝ at lunchtime. This partly reflected the fact that Mr Hall was made chairman as well as chief executive, suggesting he had been given a free hand. Battered by competition from Wal-Mart Stores and Target, Kmart has suffered nine consecutive quarters of deteriorating results and last week announced its second big store closing programme in less than nine months.

BNP, UAP deny plan to merge with Suez

By David Buchan in Paris

Two of France's biggest financial institutions – Banque Nationale de Paris and the Union des Assurances de Paris insurance group – said yesterday they had discussed pooling their activities with a third, the Suez investment and financial services group, but stressed they had not agreed any specific merger plan.

BNP and UAP, which both have a stake in Suez, said they were concerned about Suez's profitability and future strategy.

The recent sale of its Victoire insurance subsidiary has left Suez with plenty of cash, apparently coveted by both BNP and UAP to back their own expansion, but without a clear strategy for the future.

"Suez needs to define the broad outlines of its future strategy," UAP said, adding that this was "the sole responsibility" of Mr Gérard Worms, president of Suez, and his board.

The Suez board is expected to meet later this week.

The statements came at the end of a day of confusion that started with Le Monde newspaper reporting that the French government had blocked a plan for a three-way merger between BNP, UAP and Suez into what would have been Europe's largest financial conglomerate valued at FFr120bn ($24.5bn).

But the government later said it had not been informed of any such scheme and therefore had no comment to offer.

The reports follow months of speculation about BNP's intentions towards Suez, after the bank had by the start of this year built up a 5 per cent stake in the group.

BNP reiterated yesterday that its Suez share purchases were for investment purposes.

However, the Crédit Agricole bank, which also has a stake in Suez, recently said it was watching BNP's moves with "vigilance". BNP has been believed to be particularly interested in gaining control of Suez's wholly-owned banking subsidiary, Banque Indosuez, which has geographic and sectoral strengths in Asia and in capital markets that BNP lacks.

Plans by Mr Michel Pébereau, BNP president, for a rapprochement with Suez were said to have encountered strong and possibly fatal opposition from Mr Worms and most of his board.

Mr Worms is said to be reluctant to see his group's resources used simply to help BNP expand its banking operations.

Ifil climbs to L280bn at net level

By Andrew Hill in Rome

Ifil, the Italian industrial holding company, increased net profit to L280bn ($171m) in 1994 from L231bn a year earlier.

The group, part of the complex business empire headed by the Agnelli family, was helped by good results from its main holdings in Fiat, the automotive group, and Saint Louis, the French food and paper company.

Ifil is recommending an L5 dividend increase for both ordinary and savings shareholders. They will receive L110 per ordinary share, and L130 per savings share.

Last Friday, Fiat confirmed its return to profitability, announcing a net profit of L1,011bn for 1994, compared with a record loss of L1,783bn in 1993, and a return to dividends on ordinary shares.

Mr Umberto Agnelli, Ifil's chairman, said the fact that Ifil had pushed up consolidated profits by an average of 25 per cent a year for the last five years "confirmed the validity of the company's strategy".

Ifil has spread its investments both geographically and by sector so that its interests now include retailing, hotels and tourism, and cement manufacture.

Net debt fell to L604bn at the end of 1994 from L1,107bn, and currently stands at L220bn. Ifil said it expected a further improvement before the end of the year.

Daggers drawn in French banking

SocGen has struck out at rival Crédit Lyonnais, writes **Andrew Jack**

"In an uncertain economic climate, perhaps you have the feeling that your bank has difficulties ... we can offer you some really competitive options".

So begins a letter circulated earlier this year to clients of Crédit Lyonnais, the biggest state-owned French bank, by Société Générale, one of its leading private sector rivals, in a move which has triggered a debate over the bitter rivalry between the two banks.

The way in which the issue has developed has highlighted a broader range of issues about the tough competitive environment facing French banks, and the increasingly aggressive tactics that they are taking in response.

Crédit Lyonnais, submerged under negative publicity for nearly two years because of its growing financial losses, decided it had had enough when it heard from its clients that they had received letters from its rival trying to persuade them to transfer their business.

It emerged last week that it had decided in mid-May to sue Société Générale in the Paris commercial court for "unfair competition" and "misleading advertising" as a result of the claims made in the letter. The case is due to be heard at the end of this month.

Société Générale does not deny that it sent letters. However, it claims that the statements made were nothing more than "healthy competition" and that it did not name Crédit Lyonnais nor simply target that bank in its marketing campaign.

At one level, Crédit Lyonnais' resort to the courts could be seen as an escalation in the increasingly acrimonious and unusually public debate between it and some of its leading rivals.

The last few months have witnessed an unprecedented attack by Société Générale, allied with Banque Nationale de Paris and since joined by several other private sector banks, against the French state – notably criticising its plans to rescue Crédit Lyonnais.

> The action by Société Générale reflects broader concerns among banks about declining profitability

Mr Marc Viénot, chairman of Société Générale, broke with the usual discreet French approach to lambast as "anti-competitive" plans by the government to guarantee the removal from the balance sheet and eventual sale of FFr135bn ($27.5bn) in assets from Crédit Lyonnais.

He has since threatened to take Crédit Lyonnais to the European Court if his submissions to the European Commission calling for a restructuring of the rescue package do not bring about his desired changes.

The plan is currently being scrutinised by officials in Brussels.

But Société Générale's action – echoed by some of its other competitors – reflects broader concerns by banks about declining profitability.

"The whole of universal banking worked on the basis of cross-subsidies," says one observer.

"Now the options are being cut away, they are looking for scapegoats."

Until now, he argues, banks could take advantage of their more profitable capital market activities or high interest rates to subsidise less lucrative retail banking. Now that these approaches have become less easy, they have had to change tack.

That may be one explanation why the French banking association and many of its member banks have become increasingly vocal about a range of uncompetitive aspects in the French banking environment.

They are protesting against the special accounts for notaries – most of which are deposited with Crédit Agricole – and the fiscal advantages granted to the country's large mutual banking sector.

Also under attack are the sale of state-backed "Livret A" interest-bearing accounts to which they have no access, and developments such as a recent proposal by Crédit Local de France to establish a new bank with two subsidiaries of Paribas.

Nevertheless, Société Générale's approach appears more aggressive than those of its rivals, and goes beyond an attack on Crédit Lyonnais alone. At least one other leading French financial institution – which does not wish to be named – has told the Financial Times that its clients have been targeted by the bank.

It argues, as does Crédit Lyonnais, that its clients have been identified and written to at addresses not available through public information, but which may have been read off personal details printed on their cheques – which are processed locally by Société Générale.

The Commission Nationale de l'Informatique et des Libertés, a data protection watchdog, confirms that it is investigating such complaints, which appear to breach rules on the way in which data held by banks on clients and rivals' clients may be used.

Société Générale says it has been operating a decentralised policy on marketing around the country and that it has had no specific control or guideline on the approach taken by its local divisions.

Whatever verdicts the Commission and the Paris commercial courts reach, while retail banking remains under financial pressure, aggressive tactics such as those currently alleged are likely to grow stronger in coming months.

Valmet bounces back into the black

By Christopher Brown-Humes in Stockholm

Valmet, the Finnish paper machinery and engineering group, rebounded into the black in the first four months, reporting a FM97m ($22.5m) profit for the period after losses of FM230m a year ago.

The performance was much better than expected at the start of the year, reflecting a quicker delivery schedule and favourable exchange and interest rate movements.

Sales jumped 44 per cent to FM2.25bn, mainly because of the upturn in the biggest division – paper and board machinery – where sales rose to FM1.69bn from FM1.19bn. The other four divisions, covering automation, car assembly, aviation and power transmission, also improved their performance.

There was an operating profit of FM177m before depreciation, reversing a loss of FM44m year ago. Net financial income amounted to FM24m, after expenses of FM65m a year ago, partly because lower debt eased the group's interest burden.

Valmet said full-year profits would exceed last year's FM203m, helped by higher sales and a leaner financing structure.

The main impact is expected to come from the paper and board machinery division. As one of the world's three big suppliers of paper machinery, Valmet has seen a surge in orders because of the upturn in the pulp and paper sector.

The board and machinery unit received new orders worth FM4.2bn in the first four months, more than twice last year's level, taking its order backlog to FM7.36bn, up 45 per cent from the end of the year.

The company has picked up many of the new machinery orders placed by Nordic pulp and paper groups, including Kymmene, United Paper Mills, Metsä-Serla and Stora.

The group's overall order backlog at the end of April was worth FM8.9bn, up 45 per cent from the same month a year ago.

UK group to form Polish equity fund

By Richard Lapper in London

International investors are to be offered an opportunity to participate directly in Poland's rapidly growing stock market with the imminent launch of the Polish Investment Company by Foreign & Colonial Emerging Markets, the UK-based investment management group.

The new Luxembourg-based open-ended investment fund is aiming to raise between $25m and $35m, although this amount could be raised to $60m.

Although it is one of a number of funds formed in the last three years to target the Polish and east European markets, it is understood that the FCEM vehicle will be the first listed open-ended fund investing exclusively in Polish equities. The fund will close at the end of the week.

Mr Scott Delman, head of emerging Europe at FCEM, said the fund was initially targeting about 15 of the 49 companies listed on the local exchange. Capitalisation of Poland's markets has increased from some $300m in early 1993 to $7bn early last year. Prices have subsequently fallen back, but capitalisation still stands at about $4bn.

The number of companies is expected to increase at the rate of about two a month in 1995. The market is currently trading on a forecast price earnings ratio for 1995 of 9.5, Mr Delman said.

The fund will seek a balanced exposure to the Polish market, which has benefited from radical economic reform and rapid growth in recent years. FCEM said the Polish "economy currently displays characteristics similar to those seen in the Asian tigers in the 1980s".

Advised locally by the Polish Development Bank, the fund is expecting to be underweight in the Polish banking sector, which accounts for about 35 per cent of the market's capitalisation.

It will be overweight in a group of medium-sized industrial companies, with capitalisations of between $40m and $125m. Examples of the latter category are Debica, Poland's largest tyre company, and Rafako, which makes industrial boilers, according to Mr Delman.

Portugal set to open derivatives exchange

By Richard Lapper

The Portuguese government is expected later this week to give the go-ahead for the long-awaited Oporto-based derivatives exchange.

The legal text outlining new rules for futures and options trading in Portugal will be submitted to Portugal's council of ministers on Thursday, paving the way for the Oporto stock exchange to begin trading two futures contracts in November.

"The exchange will attract more international investors and give more liquidity to the underlying cash market," said Mr Manuel Alves Monteiro, chief executive officer of the exchange.

He added that the introduction of futures trading would increase the profile and sophistication of Portugal's markets.

Trading at the new market will initially be in two products – futures contracts on the new PSI-20 share index and on the OT 10, the 10-year government bond introduced in 1993.

Trading in the cash market closed at Oporto last year and is now based on the Lisbon stock exchange.

Mr Alves Monteiro said the PSI-20 index – launched in January this year – accounted for about 78 per cent of the market's capitalisation and about 80 per cent of its trading volume.

Trading at the market will be entirely electronic, following the successful pattern established by Meff, the Spanish futures exchange.

The idea of a Portuguese derivatives exchange was first proposed in 1991.

INI to go under Spanish state industry plans

By David White in Madrid

Spain's Instituto Nacional de Industria, the state holding concern set up by the Franco regime in 1941 and now at the head of a group of companies with annual sales of about $20bn, is set to disappear under reorganisation plans from the industry ministry.

The plan put forward by Mr Juan Manuel Eguiagaray, industry minister, is designed to simplify the structure of state participations under his responsibility and remove a layer of bureaucracy.

Officials said the Spanish cabinet was likely to discuss the proposed changes in the next few weeks.

If the plan is approved, INI will cease to exist. Its headquarters building in central Madrid is expected to be sold. Also likely to disappear is Instituto Nacional de Hidrocarburos, a unit created in 1981 to run INI's oil and gas interests. These have since been reorganised with the creation of the Repsol group in 1987. INH, the vehicle through which the state holds its remaining participation in the largely-privatised group, no longer has any separate structure of its own.

Under the plan, profitable or potentially profitable state interests would be grouped under a new state holding unit.

This would bring together participations in Repsol and in Teneo, a second-level holding company set up three years ago as part of INI to look after subsidiaries that were financially sustainable and might be candidates for privatisation.

Teneo, which includes the leading power generator Endesa as well as the Iberia airline, showed consolidated net profit of Pta30.3bn ($249m) last year, compared with a loss of Pta137.5bn for the INI group.

The "umbrella" unit would take over responsibility for INI's outstanding debts of about Pta700bn and act as a vehicle for the state's participations, but would have no direct role in management.

INI's subsidiaries in the troubled mining, steel, shipbuilding and defence industries would be grouped separately under a State Industrial Agency, which would act as the channel for European Union-approved government subsidies.

The ministry said the reorganisation was intended to make a clearer distinction between the lame-duck companies depending on support from the state budget, and other interests.

The scheme does not affect other Spanish government interests under the aegis of the economy and finance ministry, including holdings in the Telefónica telecommunications group, the Argentaria banking concern and Tabacalera, the state-run tobacco company.

Silgan to buy Pechiney packaging arm in US

By John Ridding in Paris

Pechiney, the French state-owned aluminium group, is to sell its US food and specialty packaging business to Silgan, a North American packaging concern.

The value of the transaction was not disclosed, but Pechiney said that the business concerned, part of its American National Can subsidiary, recorded sales of $597m last year. Sixteen plants, employing about 1,800 workers, are included in the deal.

The sale reflects Pechiney's strategy of selling non-core assets to reduce its borrowings and strengthen its balance sheet ahead of planned privatisation. Mr Jean-Pierre Rodier, chairman, has said that several other assets, including Howmet, a turbine components manufacturer, and ANC's beverage glass packaging business, may also be sold as part of its privatisation strategy.

Silgan said the acquisition would broaden its product range and the geographic scope of its operations.

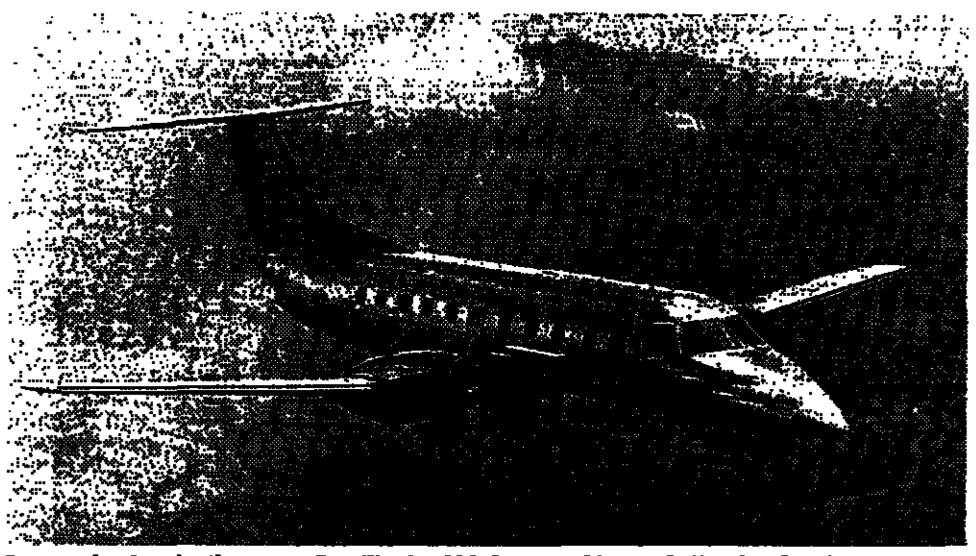
The company, which was founded in 1987, produces a broad range of metal containers for human and pet food, as well as plastic containers for health and personal care products. It has 33 manufacturing plants in North America, and achieved sales of $861m last year.

Way ahead clouded for slimmer Embraer

The aircraft maker's future is still in doubt despite further job cuts, writes Angus Foster

Cordon bleu cooking is off the menu at Embraer, the Brazilian aircraft maker, whose once famous restaurant has been contracted out to private caterers to cut costs. In an equally unpalatable move, the company last week announced it was asking one in three of its workers to take voluntary redundancy.

Job cuts are nothing new in the depressed aviation industry, and changes at Embraer were expected after Brazil's government sold control of the company to private investors last December. But the scale of the cuts highlighted the trickiness of Embraer's immediate problems, and raised questions about its long-term survival as an independent manufacturer.



Increased orders for the 30-seat Brasilia should help make this year better than last for Embraer

Embraer's cuts leave the company with 3,850 employees compared with 12,500 in 1990, the year its troubles started to mount. With commercial and military sales falling and Brazil in deep recession, it was forced to cancel a $300m development of a new 19-seat regional craft. The debts associated with that project, and high operating costs, left the company with mounting losses which last year reached $305m.

Mr Juarez Wanderley, a long-time Embraer employee who became president earlier this year, says the smaller workforce reflects "conservative" views of the company's workload in the next three years. He says most jobs lost were in administrative and back-up areas and the company's technological capacity remains intact – a view fiercely disputed by union leader Mr Edmilson de Oliveira.

The cuts will save about $80m a year and should start to take effect in six months. Meanwhile, Embraer intends to use part of the proceeds from a $155m rights issue to reduce its $400m net debt and restructure what is left. "There are no more areas to cut costs at the moment; what is left to be done is perfecting the situation," says Mr Wanderley.

Embraer's perfect outlook remains obscured by two clouds hanging over its immediate future. The first covers relationships among the company's new shareholders and management, which have yet to settle down after privatisation.

A consortium of banks and pension funds now controls the company via a 40 per cent voting stake. The two main partners are Bozano Simonsen, an aggressive Brazilian investment bank, and US investment bank Wasserstein Perella. Analysts suspect Wasserstein is only interested in trading its 19 per cent stake, especially after reports that it may not subscribe to the rights issue.

Embraer's management, which one former minister says is "at least half responsible" for the company's problems, is virtually unchanged. Critics say it is too interested in aeroplanes and not enough in profit. Mr Wanderley, with the company since its founding by Brazil's air force in 1970, says: "We are engineering minded. It's not true to say we abandoned costs, but it is true that we were not fanatical about the business side."

The second question mark hangs over Embraer's products and their performance in the slowly recovering commercial aircraft market. This year will certainly be better than last. Embraer expects to deliver 19 of its 30-seat, propeller-driven Brasilia aircraft and about 20 in 1996, compared with only eight last year. On the military side, the company has orders for its best-selling Tucano turboprop trainer. The updated Super Tucano is one of six aircraft competing for an order for 712 trainers from the US navy and air force. Production continues on the AFX fighter, a joint venture with Italy, although the aircraft still has no third party orders.

Mr Wanderley says privatisation will help Embraer compete. As a state-owned company it had no access to lease financing and had to borrow at high interest rates. It was often unable to compete for small orders because it could not provide funding. "In future we will be on the same basis as our competitors," he says.

Better financing will help, but the company's longer term health depends on an aircraft still on the drawing board. The EMB-145, a 50-seat regional jet, begins test flights in August and is due for delivery by the end of 1996. Embraer has firm orders for 13 aircraft and options for a further 11, comparatively few for an aircraft this close to launch.

Fifty-seat regional jets are a new market niche and the EMB-145's only jet competitor is the Canadair RJ. Embraer says it has kept development costs low by adapting previous designs. The company hopes its $14.5m sale price will undercut the Canadians.

Mr Richard Whitaker, editor of Airline Business magazine, says both aircraft will let airlines fly low passenger volume, longer routes, beyond the range of the slower turboprops. "But these aircraft are expensive to acquire and the turboprops are getting faster," he says.

About two-thirds of the EMB-145's $300m development costs are borne by Embraer, with the rest shared among Spanish, Chilean and US partners. Mr Wanderley says cost pressures and overcapacity make joint ventures and even cross shareholdings increasingly important. But he doubts Embraer would link up with a US or European manufacturer "because they would block our development". Closer ties with countries such as Chile or Malaysia are more likely.

If the EMB-145 disappoints, Embraer's future would be seriously in doubt. But Mr Wanderley remains convinced Brazil's love affair with flying is too important to let go. "Brazil never stopped thinking about planes, maybe because of the size of the country. We decided to master aeroplane technology. The cost is very high, but we are one of the few countries in the world to do so," he says.

Provigo ahead 30% after restructuring

Provigo, Canada's second-biggest food distributor, posted higher first-quarter net profit as a result of restructuring and the sale of loss-making units, writes Robert Gibbens.

Profit for the three months ended April 22 was C$13.4m (US$9.7m), or 13 cents a share, up 30 per cent from C$10.3m, or 10 cents, on sales of C$1.3bn against C$1.3bn. Analysts expect earnings to reach about C$60m for all fiscal 1996.

Provigo is 36.7 per cent owned by the Caisse de Depot, Quebec's public pension fund manager.

Mr Pierre Mignault, president, said Provigo was half way through a system-wide revamp and was concentrating on the big Quebec and Ontario markets.

The California supermarket unit was recently sold and non-food subsidiaries were sold in 1993-94.

KKR cash for Russia's Kamaz

Kohlberg Kravis Roberts, the US investment company, provided the first $150m of a $3.5bn investment package in Russia's truckmaker Kamaz, Reuter reports from Moscow.

KKR will pay another $150m in August, allowing the loss-making company to complete a $300m stabilisation programme. This should enable Kamaz to produce 50,000 trucks this year and return to profit. In the long term, it plans to raise output to 100,000 heavy trucks and 75,000 other vehicles.

Canadian National Railways to get debt help

By Robert Gibbens in Montreal

The Canadian government is to help Canadian National Railways reduce its debt by C$1bn (US$726m) to C$1.5bn before privatisation, planned for later this year.

About C$500m would come from government acquisition of CN commercial property and land and another C$500m from the sale of other CN assets, including its rail overhaul plant in Montreal, to the private sector.

Mr Gordon Lackenbauer, deputy chairman of Nesbitt Burns, leader of the international underwriting syndicate, told a parliamentary committee in Ottawa that all CN's shares could be sold publicly to raise between C$1.6bn and C$2bn, as long as interest rates and stock markets were favourable.

Long-term debt must be reduced from the present C$2.5bn to retain CN's international bond rating as a private-sector company at a minimum triple B. It is currently double A minus because of the government's longstanding debt guarantee.

Part of the proceeds from the share offering, probably divided into three instalments, would be used to repay another C$200m of debt.

After the share offering the government would pocket about C$1bn. No single holder will be allowed more than 15 per cent of the new CN shares outstanding.

Last autumn, the government rejected a C$1.4bn offer from rival Canadian Pacific for CN's eastern Canada rail assets. CP argues that the underwriters have over-stated the market value of the CN property to be acquired by the government.

INTERNATIONAL COMPANIES AND FINANCE

Mr Li sets Hong Kong a puzzle

Simon Holberton looks at why Cheung Kong may have gone offshore

Mr Li Ka-shing, Hong Kong's leading entrepreneur, normally shuns publicity. But his recent move to place his controlling 34.95 per cent interest in Cheung Kong, his flagship property company, in a Cayman Islands trust has brought him just the type of attention he so loathes.

Cheung Kong holds 44.96 per cent of Hutchison Whampoa, a diversified conglomerate that dominates container port operations in southern China, as well as minority interests in *a range of other* companies, many of them mainland Chinese-controlled.

Always careful to stress his love of China and his belief in Hong Kong's bright future, Mr Li's decision to move control of Cheung Kong offshore just two years before China regains the colony reminded many of the adage that "actions speak louder than words". The irony of him choosing another UK colony was not lost on observers either.

"The knee-jerk reaction is to say that he is under the whip because he's backed the wrong guys in Beijing," says Mr John Mulcahy, managing director of UBS Securities in Hong Kong and a veteran Li watcher. "But on reflection, is it really going to protect him and his offspring? His dominant asset base is in Hong Kong, and if there is upheaval, merely vesting ownership elsewhere is meaningless. I think he wants to protect his estate from inheritance tax."

The avoidance of inheritance tax was the reason Mr Li gave for setting up the Cayman Islands trust. Pressed on this point, he quipped that he was probably the last Hong Kong businessman to so arrange his affairs.

His lateness in setting up the trust is explained by those who know him as a reflection of his natural caution in personal matters. A devoted follower of *feng shui*, a superstition which tries to balance good and evil forces in nature, Mr Li once had a pair of 18th century English cannon placed on the roof of his office building in Central (Hong Kong's business district) to ward off the disharmonious effects created by a building opposite.

Mr Li also avoids change, believing that the objects around him have brought him luck. He lives in the same house and wears the same wrist watch that he has worn for years. Only recently was he persuaded to trade in an ancient Mercedes Benz for a Nissan President.

Moreover, like many Chinese of his generation, he does not believe in life insurance. "The psychology of moving ownership of his company into a trust is a big step for him," says one observer.

Yet, as Mr Li knows, timing is everything. It could not have been just a coincidence that news of the trust emerged in the week that Mr Lu Ping, China's most senior official concerned with Hong Kong's affairs, was in Hong Kong. Indeed, Mr Li, who advises China on Hong Kong matters, hosted two high-profile dinners for Mr Lu that week.

"China does not want people like Mr Li to bail out," notesMr Mulcahy. "He may have decided to make the trust public in the week that Mr Lu was here as a warning."

Li Ka-shing: his dominant asset base is in the colony

No one believes that Mr Li is bailing out of Hong Kong. Last month he expressed interest in developing 37,458 sq ft of top quality commercial land at Tamar Basin. This is next to the headquarters of the UK – soon to be Chinese – garrison in Hong Kong.

Moreover, there has been speculation in the stock market that Mr Li might be considering a reorganisation of his listed companies, under which Cheung Kong would increase its stake in Hutchison to 50 per cent.

Even though Cheung Kong is Mr Li's top company, the stock market gives it a lower rating – it trades on a p/e of around 10 times – than Hutchison, which trades on around 15 times earnings.

Such a reorganisation would allow Cheung Kong to consolidate Hutchison and in one move transform itself from a property developer to a *hong* (the local term for a big trading conglomerate) in its own right, with a higher market rating. That is the theory, but realising it does not come cheap: 5 per cent of Hutchison would cost about HK$7bn (US$905m).

These rumours are given more credence than most because the idea has been mooted by Worldsec, a boutique brokerage which is known to act for Mr Li. "If you look at the situation from Mr Li's point of view, what would be best for him would be to secure more of Hutchison's strong recurrent earnings base," says Mr Chiu Manwai, who is preparing a report on Cheung Kong and Hutchison.

He thinks the best way for Cheung Kong to increase its holding in Hutchison is by either acquiring the shares outright or swapping Cheung Kong equity for Hutchison paper.

Still, others believe Mr Li may choose to raise his stake in Hutchison by a shares-for-land swap. Hutchison's land bank is virtually depleted and Cheung Kong could sell some of its land bank to Hutchison.

"At this stage Hutchison is on the brink of running out of land," says one analyst. "It's got substantial cash flow from its container port and trading businesses so it would be logical for it to beef up the property development arm."

NEWS DIGEST

Advance Bank forecasts strong increase for year

Advance Bank, the Sydney-based regional bank which is acquiring BankSA from the South Australian state government for A$730m, yesterday forecast a profit of A$118m (US$84.5m) after tax for the year to end-May, writes Nikki Tait in Sydney. The bank posted a A$101.4m profit in the previous year, and A$57.8m in the six months to end-November.

The forecast came in a prospectus for the A$563m seven-for-10 rights issue Advance is making to help finance the BankSA deal. Shares in Advance have fallen sharply since the deal – which creates a "super-regional" bank, after Australia's "big four" national banks – was announced on Friday. They closed 13 cents lower at A$9.22 yesterday.

However, Advance said it believed earnings per share in the 1995-96 year would "not be less" than those achieved in 1994-95, and predicted earnings enhancement thereafter. Mr Jim Service, chairman, also denied suggestions that Advance might have overpaid for BankSA.

Meanwhile, shares in National Australia Bank, the country's biggest, rose 6 cents to A$11.92 on news that shareholders of Michigan National have approved NAB's US$1.5bn offer. Various US regulatory approvals have still to be received, but NAB said it expected the deal to be consummated before the end of 1995.

SAS and Thai Airways in code-sharing move

Scandinavian Airlines System and Thai Airways International yesterday signed a code-sharing agreement to link their flight services between Thailand and Scandinavia, co-operate on ground services and jointly market Thailand as a business and tourist destination for Scandinavian travellers, writes Hugh Carnegy in Stockholm.

The deal, which gives SAS its first Asian partner, complements a strategic partnership struck last month between SAS and Lufthansa. The German airline already operates an alliance with Thai Airways.

Between them, SAS and Thai operate 10 non-stop flights a week between Bangkok and Copenhagen and four between Bangkok and Stockholm.

Chrysler takes control of Brazilian distribution

Chrysler, the third biggest carmaker in the US, plans to establish itself as the sole Chrysler distributor in Brazil, AP-DJ reports from Michigan.

The move follows the dissolution of the relationship between Chrysler and São Jorge Veiculos, its Brazilian distributor. São Jorge Veiculos has represented Chrysler in Brazil since 1992.

Chrysler do Brasil, which has its headquarters in São Paulo, will oversee the appointment of dealers, provide service and parts support, and co-ordinate marketing activities.

Among the first vehicles to be imported into Brazil under the new organisation will be the Vision, Chrysler's full-size passenger car. Chrysler also said it planned to introduce its Caravan minivan, the new Stratus sedan, and pick-up trucks.

Pancontinental bid goes unconditional

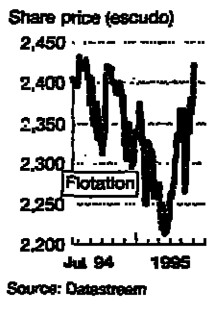
Renison Goldfields, the Australian mining company in which Hanson of the UK holds a 40 per cent stake, yesterday declared that its bid for Pancontinental Mining, worth around A$500m (US$358m), was unconditional, writes Nikki Tait.

Renison said yesterday that it held 52.25 per cent of its target's shares, after passing the 50 per cent mark on Friday. However, it remains unclear whether the bidder will be able to mop up all minority shareholdings; QBE, the Australian insurer which owns more than 10 per cent of Pancon, has indicated it will not accept Renison's terms.

Cimpor registers 73% improvement

Cimpor

Share price (escudo)



Source: Datastream

Cimpor, Portugal's leading cement producer, lifted net profits 73 per cent in the first quarter of 1995, to Es4.5bn ($30.9m) compared with Es2.6bn in the same period last year, writes Peter Wise in Lisbon. Sales rose to Es26.3bn from Es21bn and net assets grew 7.4 per cent to Es180.9bn. The company, which accounts for about 60 per cent of cement sales in Portugal, attributed the improvement mainly to Portugal's economic growth and the consolidation of companies acquired in 1994.

Cash flow rose to Es8.5bn from Es6.7bn and operating profits increased 36.8 per cent to Es7.6bn.

Cimpor became the largest industrial company to be quoted on the Lisbon stock exchange when 20 per cent of the group was sold in a public offer in July 1994. A further 25 per cent is expected to be privatised in 1996.

Portugal has the highest level of cement consumption in Europe after Austria - 700kg to 800kg a head a year, according to Cimpor. Sales are forecast to grow steadily because Portugal also has a low level of accumulated consumption, as the country has not yet built as much infrastructure as most of its European Union partners.

Hellenic Technodomiki beats forecasts

Hellenic Technodomiki, a Greek construction group, posted 1994 pre-tax profits of Dr2.4bn ($10.6m), up 32 per cent on 1993. Turnover jumped 52 per cent to Dr20.1bn, Reuter reports from Athens. Turnover and pre-tax earnings exceeded projections in its IPO prospectus by Dr5bn and Dr224m respectively.

Email lifts after-tax profits to A$100m

By Nikki Tait in Sydney

Email, which is jostling with Southcorp for number one position in Australia's white goods market, yesterday announced after-tax profits of A$100m (US$71.6m) in the year to end-March, up from A$87.3m in the previous 12 months.

Sales in the period rose to A$2.13bn from A$1.79bn, while operating profits before tax and interest were up to A$141.2m from A$121.4m. Higher interest charges of A$28m, against A$19.3m, were largely offset by a lower tax charge of A$15.9m, compared with A$23.3m.

Earnings per share rose to 37.4 cents from 34.1 cents on a fully-diluted basis, and the final dividend is 13.5 cents a share, making 25 cents for the year, up from 24 cents.

Email said all divisions, other than big appliances, showed stronger profits.

The company has been moving its refrigerator manufacturing from South Australia to New South Wales in an effort to cut costs and cope with tougher competition as tariff barriers come down. However, the process has taken longer than expected and, according to Email yesterday, resulted in non-recurring costs of A$13m. Pre-tax profits from this division fell to A$26.3m from A$40.9m, while sales were A$591.2m compared with A$562.9m.

Conversely, the metals distribution side saw profits rise fairly strongly, to A$41.9m from A$33.6m; building products contributed A$33.5m compared with A$28.8m; and the industrial products division made A$24.8m against A$15.5m.

Looking ahead, Mr Peter Cottrell, chairman, said there were "conflicting signs on the direction of the Australian economy".

He noted the weaker retail sales figures and decline in housing starts, but also the steadying of consumer confidence and interest rates.

He predicted an increase in pre-tax earnings, due to new products, export sales and cost-cutting, in 1995-96, but also warned that the tax rate would increase.

Barito Pacific Timber returns slide 51%

Barito Pacific Timber, the Indonesian group, has suffered a 51 per cent fall in net profit for the first quarter of 1995, to Rp25.67bn ($11.5m) compared with the same period last year. It blamed a drop in sales and prices, as well as higher production costs, AP-DJ reports from Jakarta.

Excluding sales of Rp3.71bn from non-timber subsidiary Griya Idola Real Estate, net sales fell 32 per cent to Rp186.29bn rupiah.

The company said sales volume fell 29 per cent to 263,452 cubic metres; and the average selling price fell 9.1 per cent to Rp311.72 per cubic metre.

Weakened plywood demand in Barito Pacific Timber's main markets since the second half of 1994 have driven volumes and prices well down, the company said. Management had cut back production in anticipation of the weakened demand. "This strategy is still effective this year."

Production costs rose to 84 per cent of sales in the first quarter from 70 per cent in the first quarter of 1994.

It blamed the rise on high fixed costs and lower production volume. The company said increased taxes and fees for reforestation also contributed.

The first quarter of 1995 produced a turnround in the downward trend of plywood price. "Having declined for the last three quarters, the price finally made an upsurge in April this year and has since maintained an upward trend," Barito Pacific Timber said. It also said there had been a modest pick-up in demand for plywood.

With market conditions expected to remain favourable for the remainder of this year, the company sees the trend of plywood prices and demand remaining modestly upward in the coming third quarter before levelling off in the last term.

هكذا من الأصل

Industriförvaltnings AB
Kinnevik

MIC
MILLICOM INTERNATIONAL CELLULAR S.A.

Comvik International Vietnam AB

Sincere Gratitude and a Warm Welcome
to The Government of the Socialist Republic of Vietnam

H.E. the Prime Minister - Mr Vo Van Kiet and Mme Phan Loung Cam
H.E. the Minister of Foreign Affairs - Mr. Nguyen Manh Cam
H.E. the Minister/Chief of Government Office - Mr. Le Xuan Trinh
H.E. the Minister of Finance - Mr. Ho Te
H.E. the Minister & General Director of DGPT - Mr. Dang Van Than
H.E. the President of the National Center for Social Science and Humanism - Mr. Nguyen Duy Quy
H.E. the Deputy Head of the External Relations Committee under the Central Committee of the Communist Party - Mr. Hoang Thuy Giang
H.E. the Vice Chairman of SPC - Mr. Vo Hong Phuc
H.E. the Vice Chairman of SCCI - Mr. Nguyen Mai
H.E. the Vice Minister of Trade - Mr. Mai Van Dau
H.E. the Vice Minister of Health - Mme. Tran Thi Trung Chien
H.E. the Vice Minister of Science, Technology and Enviroment - Mr. Chu Tuan Nha
H.E. the Vice Minister of Justice - Mr. Nguyen Van San
H.E. the Vice Minister of Maritime Products - Mr. Ta Qang Ngoc
H.E. the Vice Minister of Labour, War Invalids and Social Affairs - Mr. Trinh To Tam

Dear Excellencies and Distinguished Delegates,

On the occasion of the visit to Scandinavia and Luxembourg from May 29 to June 8, 1995, by His Excellency the Honourable Prime Minister Mr. Vo Van Kiet and Mme Phan Luong Cam, together with the Excellencies and distinguished delegates from Vietnam, we would like to extend a warm welcome on behalf of Kinnevik, MIC and Comvik.

We would also like to extend our sincere gratitude to the Government of the Socialist Republic of Vietnam for awarding our Group in partnership with Vietnam Mobile Telecom Services Company "VMS", the first nationwide cellular operating license in Vietnam.

Today, Vietnam, with a population of 70 million people, is one of the fastest growing economies in the world. The creation of a nationwide GSM cellular telephone system will enhance the telecommunications infrastructure of the country and we believe greatly assist further economic development.

Kinnevik and MIC have significant worldwide experience, building and operating cellular telephone systems. This knowledge will be utilized in ensuring a rapid expansion of the proposed network in Vietnam. Kinnevik is the majority shareholder in Comviq AB, the largest GSM operator in Sweden, as well as, a major shareholder in MIC and Netcom A/S, the Norwegian GSM operator. MIC is a leading international cellular operator with operations in 19 countries, in Latin America, Asia, Europe and Africa, with a combined population of approximately 400 million people.

We look forward to a long and successful partnership with VMS, and once again we would like to express our sincere appreciation and gratitude to the Departments, Ministries and Institutions of the Government of Vietnam, who have been responsible for the award of this license.

Our respects to the People of Vietnam,

Jan H. Stenbeck
Chairman
Industriförvaltnings AB Kinnevik
Millicom International Cellular S.A.

Stig Nordin	Jay W. Metcalfe	Håkan Ledin	M.A. Zaman
President & CEO	President & CEO	Chairman and Executive Director	President & CEO
Industriförvaltnings AB Kinnevik	Millicom International Cellular S.A.	Comvik International Vietnam AB	Comvik International Vietnam AB

Pressure on industry regulator to take tough line on price controls

Anglian Water makes refund

By Christopher Price

Anglian Water said yesterday it would refund customers £6 each this year, angering consumer groups which said the rebate was a drop in the ocean compared with the hefty dividend increase and share buyback programme also announced by the utility.

Anglian is the second privatised water company, after North West Water, to respond to growing pressure over executive pay and profits by announcing a rebate for customers.

Speculation is growing that others will follow suit. Yorkshire Water, which reports its results tomorrow is considered the most likely to make a similar response, while Severn Trent is also thought to be a potential candidate when it announces figures next week.

Other water companies are thought more likely to channel benefits to shareholders – adding further to pressure on Ofwat, the industry regulator, to take a tougher line on price controls.

Anglian's rebate, which will be credited to customers' accounts in the second half of the year, amounts to just over 2 per cent of the average annual bill of about £280.

Ms Ruth Evans, director of the National Consumer Council said: "This is no more than a token gesture – Anglian's savings and profits should be shared at least equally between customers and shareholders."

'This is no more than a token gesture – Anglian's savings and profits should be shared at least equally between customers and shareholders'

Anglian yesterday announced a 14 per cent increase in its 1994-95 dividend.

Mr Robin Gourlay, Anglian chairman, said: "The size of the rebate has been determined by efficiency savings made during the past five years under targets agreed with Ofwat."

Unlike North West, which has pledged to make refunds and special dividends in each of the next five years, Mr Gourlay refused to speculate on how Anglian would spend future savings.

"We will not be tied into a formula as to how we deliver our results," Mr Gourlay said, adding: "we intend to deliver significant real dividend growth over the next five years." Anglian is also proposing to buy back up to 10 per cent of its shares.

The one-off customer rebate will cost Anglian £12m, with the company spending a further £2m on setting up a trust fund to help customers who have difficulty paying their bills.

Mr Gourlay said customers would also benefit from an extra £8m allocated to issues such as low water pressure and cleaning up estuaries.

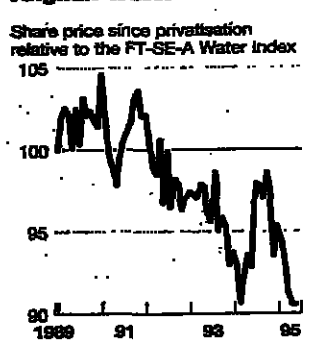
Two weeks ago, North West Water announced a £6.50 rebate and a 3.8p special dividend and pledged dividend growth of 7 per cent a year in real terms over the next five years. The total cost of the package is £180m.

Mr Jack Cunningham, Labour's trade and industry spokesman, said: "These profits once again highlight the need for greater consumer protection in privatised monopoly industries. The balance between the interests of the shareholders and directors and those of consumers has been completely lost."

See Lex

Anglian Water

Share price since privatisation relative to the FT-SE-A Water index



Source: FT Graphite

Expansion planned at Emap

By Raymond Snoddy

Emap, the media and exhibitions group, made it clear yesterday that it wanted to expand in commercial radio and would be looking carefully at Metro following the announcement that the Newcastle-based broadcaster's two largest shareholders want to sell their stakes.

"We will be looking at Metro, together no doubt with many others," said Mr Robin Miller, Emap's chief executive, as he reported a 40 per cent rise in pre-tax profits.

Emap is already the second largest commercial radio operator in the UK after Capital. A relaxation of cross-media ownership rules, expected to become law within the next two months, could enable it to nearly double its share.

Commercial radio is, from a small base, Emap's fastest growing division. Over the past year operating profit grew from £1m to £5.2m boosted by the purchase of Trans World Communications.

Growth returns for 'Big Six' accountants

By Jim Kelly, Accountancy Correspondent

Price Waterhouse, the accountancy firm, yesterday offset disappointing fee income results in the UK by pointing to growth of 60 per cent in eastern Europe.

Mr Ian Brindle, senior partner at PW, said that economic conditions within the UK had been extremely difficult during 1994-5. "Consequently for better growth opportunities we are seconding more and more partners and professional staff overseas," he said.

"Much of the revenue generated through their efforts benefits PW in continental and eastern Europe," said Mr Brindle. The firm showed a decline in fee income in the UK of 0.4 per cent.

With all the big firms increasingly involved in global projects the annual fee income table, already discredited because of wide variations in the way the firms compile their results, is looking increasingly obsolete as a tool for meaningful comparison.

Elsewhere growth returned to the rest of the UK's "Big Six" accountancy firms in 1994-5, in sharp contrast to last year's largely stagnant performance, according to fee income data released yesterday.

But the firms' senior partners agreed that the market was still fiercely competitive in terms of price and there was no prospect of a return to the growth of the 1980s.

Four out of six saw a reduction in the number of partners in the year.

In 1993-4 four of the firms recorded less than 1.5 per cent growth in income. This year only two, Touche Ross and Price Waterhouse, failed to reach that target while the rest recorded growth in excess of 3 per cent.

Andersen was the only firm to move a place – up from third to second – but the league table did show signs of increasing segmentation. The highest growth rates were among the biggest firms.

While Coopers & Lybrand put in a creditable 2.7 per cent growth at the top of the table KPMG notched up 6.2 per cent and Andersens 9 per cent – less than their normal double-digit rise – but nonetheless impressive.

The lowest growth rates were recorded by the bottom two firms – Price Waterhouse showing a drop of 0.4 per cent while Touche Ross, which last year recorded a drop of 0.8 per cent, recovering slightly with growth of 1.2 per cent.

Growth rates for the firms in the next tier down, the so-called Group A, were varied but there was no clear evidence that they are falling away from the Big Six. Grant Thornton, the leading Group A firm, recorded growth of 6.1 per cent, according to preliminary results.

The full set of fee income returns from the top 30 firms will be released later this week but early returns show a varied picture – with Robson Rhodes showing fee income growth of nearly 11 per cent while Pannell Kerr Foster made just 0.5 per cent.

Each of the big firms made a concerted effort yesterday to portray its results as encouraging – and there were signs yet again that there would be disagreements over the way the figures were recorded.

Mr Peter Smith, senior partner at Coopers & Lybrand, said: "Despite reductions in capacity in our market competition is as fierce as ever and it is going to stay that way."

Against this background our results are a considerable achievement."

Mr Colin Sharman, senior partner with KPMG, said: "Across the board clients are coming out of the recession and the 20 per cent growth in management consultancy is an indication that healthy growth is returning for professional firms."

Touche Ross mirrored the general buoyancy of fees in the management consultancy and tax sectors – recording growth of 23 per cent and 5 per cent respectively. Mr John Roques, senior partner, pointed to work in outsourcing within the public sector as significant.

Ernst & Young, traditionally strong in the tax field, recorded a gain in market share. It also noted a "pick-up" in corporate finance work and the MBO market in particular. Mr Nick Land, senior partner, pointed to the firm's appointment as administrators to Barings, the UK merchant bank, as a highlight of the firm's performance in corporate recovery.

BIG SIX ACCOUNTANCY FIRMS: RESULTS

Ranking '95	'94		1994-95 Income £m	% change	No. of partners	% change	Other prof'l staff	% change
1	1	Coopers & Lybrand	575.0	+2.7	807	-10.3	6,268	+0.0
2	3	Andersen	539.5	+9.0	389	+3.4	4,673	+3.3
3	2	KPMG	528.4	+6.2	573	-3.5	5,998	-2.9
4	4	Ernst and Young	401.2	+3.3	386	-1.5	4,376	-1.8
5	5	Price Waterhouse	383.2	-0.4	399	-3.8	3,836	-2.1
6	6	Touche Ross	338.8	+1.2	345	+0.9	4,303	+14.4

Source: Big six accountancy firms

Shareholders in Metro Radio announce stake sale

By Motoko Rich and Christopher Price

Metro Radio, the Newcastle-based commercial radio operator, yesterday said its two largest shareholders, Capital Radio and Chrysalis Group, were selling their stakes.

Following the move, Emap, the media group, said it was interested in Metro.

Capital owns 18.1 per cent of Metro and Chrysalis owns 19.5 per cent. Mr John Josephs, managing director of Metro, said the company would prefer the 37.6 per cent holding to go to as wide a range of institutions as possible.

Speculation had been mounting that the northeastern group would become the second bid target – after Chiltern Radio – following the UK government's announcement of cross-media ownership proposals in May. The proposals would allow a company to own up to 35 radio licences, rather than the current 20.

Mr Robin Miller, chief executive of Emap, said: "Plainly we are interested in Metro Radio and we are obliged to look at it."

Mr Patrick Taylor, finance director of Capital, said the group was withdrawing from Metro because "we really like to be invested in companies where we are going to have a significant involvement in that business and we do not see that opportunity with Metro". Under government regulations, Capital cannot mount a bid for Metro.

At yesterday's closing price of 478p, Capital would make £15.2m in cash. Capital bought its stake in 1988 for £2.5m.

Like Capital, Chrysalis said it was disposing of its stake because it did not have management input at Metro. Mr Richard Huntingford, chief executive of Chrysalis Radio, said the company wanted "to concentrate on expanding our fully-owned and operated interests, as opposed to minority interests".

Capital is being advised by SG Warburg and Chrysalis is advised by NM Rothschild.

The Morgan Stanley Japanese Warrant Fund N.V.
John B. Gorsiraweg 6, Willemstad
Curaçao, Netherlands Antilles
(the "Office")

NOTICE AND PROXY STATEMENT OF A SPECIAL GENERAL MEETING OF SHAREHOLDERS

(the "General Meeting")
to be held on June 28, 1995
at 10.00 am Netherlands Antilles time at the Office

This notice is furnished to all holders (the "Shareholders") of shares (the "Shares") in the share capital of The Morgan Stanley Japanese Warrant Fund N.V. (the "Corporation"), by MeesPierson Trust (Curaçao) N.V., a Netherlands Antilles limited liability company with its corporate seat in Curaçao, Netherlands Antilles, in its capacity as managing director of the Corporation (the "Managing Director").

AGENDA

1. Opening.
2. The proposal to de-list the Shares from the International Stock Exchange of the United Kingdom and the Republic of Ireland, on the condition precedent of adoption of the resolution to dissolve and liquidate the Corporation as set forth hereunder as per the date of dissolution of the Corporation.
3. The proposal to dissolve ("ontbinden") the Corporation as per June 28, 1995 with liquidation ("vereffening") to begin as soon thereafter as practicable in accordance with Article 28 of the articles of incorporation of the Corporation (the "Articles of Incorporation") and Netherlands Antilles law, and to authorise the liquidator of the Corporation to make distributions to the Shareholders of the Corporation in accordance with Article 29 of the Articles of Incorporation in advance of formal liquidation.
4. The proposal to appoint Yvomante Corporation N.V., a limited liability corporation organised under the laws of the Netherlands Antilles, an affiliate of the Managing Director, as liquidator of the Corporation ("Yvomante") and for that purpose to instruct Yvomante:
   a. to satisfy all creditors of the Corporation;
   b. to file or cause to be filed any notices required to be filed or published in connection with the liquidation;
   c. to perform all acts and things and to execute all instruments, deeds, and forms of transfer necessary or desirable in connection with the dissolution and liquidation of the Corporation, in particular to perform the required filings and take care of the necessary publication;
   d. to make distributions to the Shareholders in accordance with Article 29 of the Articles of Incorporation in the manner as set forth at paragraph 3 above in advance of the finalisation of the formal liquidation;
5. the proposal to appoint Yvomante as holder of the books and records of the Corporation (in such capacity the "Holder of the Books");
6. to indemnify Yvomante against all judgments, fines, amounts paid, settlement and attorney's fees, incurred by the Corporation as a result of the liquidation of the Corporation, unless it shall have been finally determined that such costs were the result of the wilful malfeasance, bad faith or gross negligence on the part of Yvomante;
7. to authorise the Managing Director, the board of supervisory directors (the "Supervisory Board", consisting of "Supervisory Directors") and each Supervisory Director and/or any of the Corporation's duly authorised representatives to take any and all actions he deems instrumental, necessary or conducive to carry out the intents and purposes of the foregoing resolutions;
8. to approve, authorise and, to the extent necessary ratify any and all acts of, and therefore fully discharge, the Managing Director and the Supervisory Board and/or any of the Corporation's duly authorised representatives up to and including the day of the General Meeting.
9. Adjournment/Close.

GENERAL INFORMATION

This Notice is accompanied by a letter to the Shareholders and a form of a proxy (the "Proxy") to be used by each Shareholder who wishes to be represented at the General Meeting by a proxy holder.

Holders of Shares in bearer form (the "Bearer Shares", together with the Registered Shares the "Shares") may obtain the Notice and the Proxy at the Office as indicated in the notice regarding the calling and convening of the General Meeting as published in a newspaper with circulation in the Netherlands Antilles and in The Financial Times or another newspaper with circulation in the United Kingdom. The notice regarding the calling and convening of the General Meeting shall be published on or about the date hereof.

The Morgan Stanley Japanese Warrant Fund N.V.
by: MeesPierson Trust (Curaçao) N.V., Managing Director

June 6, 1995

COMPANY NEWS: UK

Ladbroke sells US property for $163m

By Scheherazade Daneshkhu Leisure Industries Correspondent

Tony Andrews
Peter George: a record price for this type of property in the area

Ladbroke, the hotels and betting group, has reduced its property portfolio by one fifth with the sale of the Bay Colony Corporate Center in Boston, Massachusetts, for $163m.

The 829,000 sq ft development of three large office buildings, which Ladbroke acquired in 1988, was sold to The Shorenstein Company, a real estate group based in California.

Mr Peter George, chief executive of Ladbroke, said: "This major transaction, which represents around one fifth of our remaining portfolio, continues our programme of selling down our property interests. We have achieved a record price for this type of property in the Boston area, which bodes well for our efforts to dispose of other US properties."

Ladbroke, once one of the largest commercial property developers in the UK with more than £1bn invested, hopes to leave the property market by the end of 1996. It had £518.6m ($814.2m) of property assets on its balance sheet at the end of 1994, divided roughly equally between the US and the UK. The Bay Colony Corporate Center, which has been on the market for almost a year, was the largest single property in the portfolio with net rental income last year of $8.6m.

The company has been paid $40m in cash. A further $75m is due by December 22 and the balance will be received by December 29 1998. The deferred payments are represented by promissory notes and secured by a mortgage on the property. Ladbroke said the $163m, which equates to book value at the end of December 1994, will be used to reduce group debt of £1.1bn. Gearing will come down from 57 per cent by a few percentage points.

The company's share price has been affected by a number of developments in its two main divisions. In the UK, competition from the National Lottery has reduced turnover at Vernons, its pools division while the Lottery's scratchcard game has caused betting turnover to decline.

Mr Charles Mason, analyst at BZW, said Ladbroke was fully valued but sentiment could change if Ladbroke, which controls Hilton hotels outside the US, managed to link up with Hilton Hotels in the US.

German deal lifts Critchley

By David Blackwell

A strong performance from last year's German acquisition helped Critchley Group, the electrical cable accessories manufacturer, to lift profits by almost half.

Pre-tax profits for the year to the end of March increased from £3.85m to £5.61m. Sales jumped from £28.9m to £36.4m, including £4.55m from Idento, the German acquisition, and CCA, a UK distributor also acquired last year.

Mr Ian McCallum, chief executive, said that Idento had performed better than expected, and had been well integrated over the last 9½ months of the year. It had increased sales by 21 per cent in "a pretty buoyant German market."

Sales of wire markers, the core product, had increased by 63 per cent, Mr McCallum said. The growth was helped both by Idento and by the group's new HSI computer based marking system, which prints heat-shrinkable marker sleeves. The group was introducing HSI to the German market under the Idento brand.

Group operating margins improved from just under 13 per cent to 15.5 per cent.

Electrocomponents pleases City with 18% rise to £86m

By Patrick Harverson

Shares in Electrocomponents rose yesterday after the distributor of electronic, electrical and mechanical components reported an 18 per cent increase in pre-tax profits from £72.7m to £86.1m ($135.2m) for the year to March 31.

The results were better than analysts had expected, and the shares gained 32p, or 5.5 per cent, to close at 619p.

Mr Roy Cotterill, chairman, said: "Our strategy of increasing the service to our customers, both in terms of range and geography, has prospered."

Mr Cotterill said the new financial year had begun well, with sales growth "evident in all of the group's major operations".

Turnover rose 19 per cent to £472.6m (£396.5m) spurred by strong sales growth in both its home and overseas markets. Operating profits also increased 19 per cent to £83.3m, against £69.9m.

The group's main UK business, RS Components, saw sales increase by 14 per cent to £320.2m. The growth was driven by an expanded product range – which increased from 44,500 to 52,300 – and new services, including a popular range of CD-Rom catalogues, which helped win new customers. Net margins fell slightly because of higher marketing costs.

Sales at RS International grew by 43 per cent to £114.6m, the first time non-UK turnover had broken £100m. Electrocomponents said its German operation had emerged from its start-up phase into profitability, and that it expected the Italian unit to follow suit this year.

Pact International, the group's small packaged electrical, audio and DIY accessories distributor which has struggled recently, reported a modest increase in sales to £37.8m and its first operating profit in four years.

Earnings per share rose to 27.4p (22.9p) and a final divided of 8p is recommended, making a total of 11.25p (9.5p) for the year.

Analysts said the company had made something of a habit of pleasantly surprising the City with its results and yesterday was no exception. The surprise this time was the strength of domestic sales and the 8 per cent expansion in the UK customer base.

Whether this growth can be sustained as the economy decelerates remains to be seen, but the group has already begun to insure against a slowdown in its domestic market by building up its overseas distribution businesses. The prospects in Europe look good, while south east Asia remains relatively undeveloped but still potentially exciting territory.

The forecast profits this year of about £98m translates into a prospective multiple of almost 21. This means that all the good news and expectations for future growth have already been priced into the shares, which are currently trading at a 40 per cent premium to the market. Consequently, there appears to be little room for much upside.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Anglian Water	Yr to Mar 31	720.1	(687.9)	216.1♦	(132.2♦)	66.4	(39)	18	Oct 3	15.5	26	22.8
BAA	Yr to Mar 31	1,159	(1,098)	366	(322)	27.3	(23.5)	6.375	Aug 16	5.625	10.125	9
Beverley	14mths to Feb 28	4.15	(11.7)	3.02L♥	(2.67L)	8.64L	(7.63L)	-	-	-	-	-
Critchley	Yr to Mar 31	36.4	(28.9)	5.61	(3.85)	28.5	(22.4)	6.25	Aug 3	5.5	9.25	8.1
Electrocomponents	Yr to Mar 31	472.6	(396.5)	86.1	(72.7)	27.4	(22.9)	8	Aug 14	7	11.25	9.5
Emap	Yr to Apr 1	547.1	(382.4)	63.9	(45.7)	22.2	(16.6)	7.25†	Aug 11	6.4	9.75	8.65
Faber Prest	6 mths to Mar 31	45.4	(35.7)	3.44	(2.83)	15.52	(13.68)	6	July 21	5.5	-	15.5
Ldn Industrial	Yr to Mar 31	9.8	(6.9)	2.43	(0.93)	20.2	(12.5)	7	Aug 1	5	10	7
Radstone Tech	Yr to Mar 31	29.2	(28.3)	2.27	(1.45)	9.25	(5.7)	2.475	Sept 4	nil	3.3	nil
Wyndeham Press	Yr to Mar 31	26	(13.5)	3.53	(1.76)	11	(7.1)	2.35	Aug 18	1.5	3.75	2.25

Dividends shown net. Figures in brackets are for corresponding period. †On increased capital. $USM stock. ♦ After exceptional charge. ♥After exceptional credit.

NEWS DIGEST

Molins US lawsuit is settled

Molins, the precision engineering group, has settled a patent infringement lawsuit in the US after a fruitless nine-year legal battle.

The settlement follows the decision by the US Court of Appeal three months ago to uphold an earlier court ruling that the group's patents on its computer-aided manufacturing systems were unenforceable.

Under the terms Molins has agreed to pay part of the attorneys' fees of the two US companies which were defendants in the case, plus other legal costs. The company would not disclose the amount of money it would have to pay out, but said the costs and the repayments of any licence fees it had collected for the patents over the years were adequately covered by provisions set aside in 1992 and 1993.

Molins also said it would continue to vigorously contest a separate lawsuit brought by Caterpillar, the US earth-moving equipment manufacturer, which is claiming damages and fees over patent infringement.

Radstone warning

Shares in Radstone Technology, the supplier of open architecture computer subsystems to the industrial and defence sectors, fell 21p to 106p yesterday after the company announced a 57 per cent rise in pre-tax profits from £1.45m to £2.27m ($3.56m) for the year to March 31.

Mr Rhys Williams, chairman, said that because of uncertainties in the US military markets, directors remain cautious with respect to the current year, "for which we expect to see an overall decline in sales and profits". The big change in US defence purchasing would "in the long run be helpful to our competitive position".

Glencar cuts loss

Glencar Explorations, the Dublin-listed mineral exploration company, cut pre-tax losses from I£490,200 to I£207,800 in 1994.

Exceptional charges amounting to I£128,400 related to provision for loss on disposal of shares in Andaman Resources and a write-down on the remaining shares held in the company. This compared with a I£419,900 exceptional last time. Losses per share were 0.6p (1.9p).

The company intends to increase its interest in the Wassa gold project in Ghana.

Rutland disposal

Rutland Trust, the financial and business services group, has exercised the put option in respect of its remaining 49 per cent interest in Benjamin Shaw (Pontefract), the West Yorkshire-based canning business. It received £4.25m from Cott (UK), a subsidiary of Cott Corporation of Canada.

Rutland has already received repayment at par of £1.75m BSP loan stock. The payments represent final settlement by Cott of its obligations to acquire Rutland's remaining interests in BSP.

Gt West Resources

On lower revenues from coal and oil and gas, interim pre-tax losses at Great Western Resources increased from $4.08m to $7.42m.

Losses per share were 6 cents (4 cents).

The Texas-based, London-listed group is phasing down its coal division.

During the period its first well in its Peru activity was found not to have commercial quantities. However, the company was confident that the block had the potential to increase shareholder value.

صورة من الاصل

COMMODITIES AND AGRICULTURE

Anglo prepares rescue plan for Zambian copper group

By Kenneth Gooding, Mining Correspondent

Anglo American Corporation of South Africa is stepping up its initiatives to save Zambia's copper industry.

"What we have in mind is an international consortium, with Anglo in the lead, that would [buy] shares in Zambia Consolidated Copper Mines as the Zambian government reduces its 60 per cent stake," says Mr Julian Ogilvie Thompson, Anglo's chairman.

But there is not enough information available about what the consortium should offer and on what terms, he suggests. "We have not had access [to the information we need] to arrive at the answer of how much we should pay."

So Anglo and the Zambian government have agreed that there should be a major "due diligence" investigation of ZCCM, which is 60 per cent owned by the government and 27 per cent owned by Anglo via Zambia Consolidated Investments (ZCI).

This would include an examination of the potential viability of the Konkola Deep project which is expected to provide a substantial part of ZCCM's future copper output.

The company contributes 90 per cent of Zambia's foreign earnings but has been systematically starved of investment, is burdened with relatively high production costs and US$640m of foreign debt. Since nationalisation its copper output has dropped from a peak of nearly 700,000 tonnes in 1969 to less than 400,000 tonnes. Output is likely to halve again unless Konkola can be brought quickly into production.

Mr Ogilvie Thompson says it is in Zambia's interest for ZCCM to be privatised as quickly as possible. While it is in the Zambian government's interest to keep a stake in the company – "it should not be 50 per cent".

Anglo has first right of refusal if the government sells down to below 50 per cent. "We want more than ZCI's 27 per cent but not more than 50 per cent. That would be unwise politically and from an industrial relations point of view," says Mr Ogilvie Thompson.

He hopes the "due diligence" process will begin shortly, after terms of reference have been decided.

ZCCM will need about $600m to develop Konkola and the company asked Nikko Securities of Japan to help raise the required funds, without success so far, possibly because of ZCCM's existing huge debt.

A bigger stake in a revived ZCCM would fit well with Anglo's aim to move from being the world's fifth largest copper producer to one of the top three positions. The group is investing heavily in new copper projects in Latin America via its Minorco subsidiary.

Newfoundland hopes for nickel bonanza from Voisey Bay

By Kenneth Gooding

The provincial government of Newfoundland and Labrador in Canada is determined that a substantial part of value of the Voisey Bay nickel project, hailed as North America's biggest base metals discovery for 30 years, will be generated locally.

It already is investigating the viability of a nickel smelting and refining complex in the province.

Analysts suggest that this would make sense but it would require capital investment of at least US$1bn and make it more likely that one of the world's big nickel producers would be invited to take a stake in the Voisey Bay project, which is wholly owned by Diamond Fields Resources, a relatively small Canadian exploration company.

The Newfoundland government's hopes for a provincial bonanza from Voisey Bay emerged yesterday after a "road show" about the project, organised in London by Canadian stockbroker Yorkton Securities, which attracted an attendance of more than 200 people.

Yorkton revealed that in the past six weeks it had raised more than C$50m for seven small exploration companies that had staked land near Diamond Fields' land.

Mr Roger Morton, professor of economic geology at the University of Alberta, explained why.

He compared the Nain area of Labrador, where the discovery was made, with Sudbury in Canada, which has 38 deposits containing between them 1bn tonnes of ore. He pointed out that the Nain area was seven times the size of Sudbury and was also likely to become a nickel "province" supporting many mines.

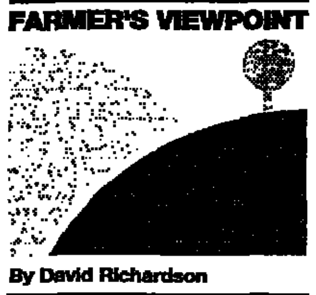
Diamond Fields might have some of the deposits on its land but "I can guarantee there will be at least one outside the Diamond Fields' area", insisted Mr Morton.

He suggested that Voisey Bay's nickel production costs would be about 50 US cents a pound ($1,102 a tonne, one-seventh of the current London Metal Exchange price). In reality, however, the effective costs would be zero because they would be covered by revenue from copper and cobalt by-products. From what was known so far Voisey Bay contained at least 60m tonnes of nickel worth US$32bn net.

European Union faces grain policy dilemma

Looming world supply tightness is already complicating the acreage set-aside issue

FARMER'S VIEWPOINT



By David Richardson

Ears of autumn sown wheat are peeping from their sheaths of green leaves – or in farming parlance, "coming out of the boot". As always, in early June, crops are changing from what, to the uninitiated, might have looked like lush grass a few weeks ago, to their maturer habit in which each straw is crowned by the unmistakeable spiked seed head that characterises the UK's staple cereal. As those ears sway gently in the breeze it looks likely that most farmers will harvest at least an average yield come August.

Some, of course, could do with more rain. In spite of the showers at the weekend it has been a drier spring than usual and wheat is at the peak of its water requirement. Many crops carry predators such as grain aphids, which, if numbers rise, can seriously deplete both yield and quality. Others are becoming infested with the dreaded and potentially damaging orange blossom midge. This is an insect wheat growers only became conscious of a few years ago, but which now causes them much aggravation and heart searching as they wonder whether to succumb to the urgings of insecticide manufacturers and kill them with sprays, or leave ladybirds to eat them free of charge.

Even so, most UK wheat growers would admit, if pressed, that they are moderately happy with their situation, not least because eight devaluations of sterling since the turn of the year have each, through the operation of the European Community's "green" currency system, added a little more to the residual guaranteed price for their commodity. And this has been enhanced further by a lively demand, both on the spot and forward markets, which has exceeded expectations – a reflection of a tightening world supply/demand situation.

But here in the EU there is little prospect of a shortage. The latest projection of this year's probable EU cereal yield by Copa, the European farmers' organisation, suggests a total, including mainly wheat, barley, oats and maize, of 177m tonnes. Given normal EU domestic consumption of about 145m tonnes a year that clearly would provide supply security plus a margin for export. Under the terms of the General Agreement on Tariffs and Trade settlement the community will be permitted to sell about 25m tonnes abroad. So, although there may be a little more than that next harvest the over-supply is unlikely to be huge.

Indeed, statistics like those above are causing EU officials to hesitate as they ponder the level at which to fix community set-aside for 1996. This year the standard for rotational set-aside is 12 per cent of eligible cropping. This is a 15 per cent reduction from last autumn because shorter world supplies were already beginning to be recognised. Some member states are now pressing the commission to cut the idled land still further for 1996 to less than 10 per cent. For although the EU may be well supplied with grain some areas of the world are slipping towards a critical position.

A few days ago the International Wheat Council announced that on the basis of its preliminary forecasts "world stocks [of wheat this year] would be the lowest since 1977-78". And for coarse grains (chiefly maize and barley) the IWC said "on present assumptions the supply/demand position. . . could be the tightest since the mid-70s".

The UN Food and Agriculture Organisation has been predicting such a scenario for some months. As long ago as March it issued a "Food Outlook" report that spoke of "persisting acute food insecurity in several countries". Those included, in particular, parts of Africa and the former Soviet Union. Moreover FAO forecast a carryover stock of cereals as a percentage of world consumption for this year of only 17 per cent, a reduction of 4 per cent in just two years and a level which would be "below minimum safety levels".

Needless to say the EU "grain mountain" has been reduced significantly as a result of this cut in world stocks. Eight or nine years ago, at the peak of community over-production of grain, well over 30m tonnes was held in intervention stores. Today many of those stores are empty and as of the end of May the total was said to be 9.5m tonnes, most of which was in Germany, and of which 1.7m tonnes has now been sold. Effectively, therefore, Europe's total stock of grain is just 7.8m tonnes.

In Britain, at the end of April, there was no bread-making wheat, just 22 tonnes (less than a lorry load) of feed wheat and 483,000 tonnes of barley held in intervention stores. Indeed it might be regarded as scarcely sufficient for a strategic reserve.

Meanwhile, in the US, which is still regarded as the grain grower to the rest of the world, the year is not going well for farmers. Winter sown crops of wheat were damaged over a wide area of the southern states by late spring frosts; and since then planting of both wheat and maize further north has been severely delayed by heavy rain.

Last week one pundit estimated that a little over half the planned acreage had been planted across the Midwest compared with 90 per cent by the same date last year and an 81 per cent five year average. Expectations for the harvest have already been reduced and in response wheat prices at main US markets increased on the week by about 20 cents a bushel and maize by about 5 cents a bushel. The European Commission and the council of agriculture ministers therefore face a dilemma. Should they, on the basis of the relatively secure EU domestic position, hold or even increase set-aside levels, to avoid overproduction in Europe and keep below the Gatt ceiling? Or should they cut the requirement to idle land on the assumption that there will be a lively demand for EU grain from the rest of the world?

Whatever they do decide, may I make a plea that they do it soon. If they leave it until late November, as they did last year, it will again be almost too late for farmer to respond.

UN agency sees world stocks dropping below danger level

By James Harding

Harvest shortfalls and growing demand will push global food stocks below the minimum necessary to maintain world food security, Mr Jacques Diouf, director general of the UN's Food and Agriculture Organisation, warned yesterday.

Speaking at the opening session of the FAO council meeting in Rome, Mr Diouf said that falling world cereal output would not meet rising consumption levels in 1995-96, forcing a further drain on stocks.

In particular, he stressed the precarious balance of supply and demand in southern Africa, suggesting that a repeat of this year's drought in the region could result in a food crisis.

The substantial fall in output forecast this year is expected to be covered by large stocks held by the region's traditional grain-exporting countries, South Africa and Zimbabwe. However, at the end of the current year, the area's cereal stocks will be virtually depleted. "A poor 1996 harvest could spell disaster for millions of people in southern Africa," he said.

Worldwide, FAO forecasts world cereal production in 1995 at 1,933bn tonnes, a 1 per cent decline on last year. Such output levels will not be sufficient to meet demand, further draining carryover stocks to about 270m tonnes at the end of the 1996 crop year.

Based on this forecast, aggregate world cereal stocks at the end of 1995-96 could approach 15 per cent of trend utilisation in 1996-97, "substantially below the range of 17-18 per cent FAO considers the minimum necessary to safeguard world food security", Mr Diouf said.

Any unforeseen changes to production or demand in such a tight marketplace could push up prices.

"If crop conditions deteriorated in major regions or any significant additional demand materialise this year beyond that already anticipated, further price increases would be triggered," he said.

Mr Diouf suggested that would have serious implications for low-income countries with food deficits, especially considering the global fall in the availability of food aid.

An FAO report prepared for the meeting of the council, which governs the UN agency between biennial meetings of the FAO conference, shows that 9.8m tonnes is likely to be provided in total food aid in cereals for 1994-95, the lowest level in more than a decade and down 26 per cent from the 13.3m tonnes delivered in 1993-94.

Earlier this year, the US halved its annual grain commitment to countries with traditional or emergency food shortages.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1776-77	1797-98
Previous	1799-800	1819-20
High/low	1789	1822/1796
AM Official	1798-97	1818.5-19.0
Kerb close		1785-6
Open int.	194,413	
Total daily turnover	41,766	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1640-50	1656-64
Previous	1660-70	1675-85
High/low		1672.5/1660
AM Official	1655-65	1670-75
Kerb close		1660-70
Open int.	2,812	
Total daily turnover	359	

■ LEAD ($ per tonne)

Close	593.5-4.5	606-6.5
Previous	610.5-11.5	622-23
High/low	604.5	619/600
AM Official	604-4.5	616.5-17.0
Kerb close		599-600
Open int.	30,646	
Total daily turnover	4,236	

■ NICKEL ($ per tonne)

Close	6155-65	6290-300
Previous	7710-20	7840-50
High/low		8090/7850
AM Official	7940-45	8074-75
Kerb close		7970-80
Open int.	43,326	
Total daily turnover	13,716	

■ TIN ($ per tonne)

Close	6365-75	6290-300
Previous	6325-35	6260-65
High/low	6410	6330/6265
AM Official	6395-405	6320-30
Kerb close		
Open int.	18,850	
Total daily turnover	3,733	

■ ZINC, special high grade ($ per tonne)

Close	996.5-97.5	1022-23
Previous	1015-16	1042-43
High/low		1050/1015
AM Official	1017-19	1043-44
Kerb close		1016-7
Open int.	84,128	
Total daily turnover	20,455	

■ COPPER, grade A ($ per tonne)

Close	2911-13	2881-82
Previous	2877-78	2863-63.5
High/low	2910	2892/2870
AM Official	2909-10	2886-87
Kerb close		1877-8
Open int.	236,645	
Total daily turnover	66,447	

■ LME AM Official £/$ rate: 1.5885
LME Closing £/$ rate: 1.5904
Spot:1.5960 3 mths:1.5937 6 mths:1.5887 9 mths:1.5832

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	Low	Open int	Vol
Jun	134.80	-0.20	135.00	135.00	1,399	228
Jul	134.05	+0.20	135.20	133.80	25,528	2,877
Aug	132.95	+0.20	132.90	132.90	679	12
Sep	131.05	+0.40	132.00	130.70	8,238	1,836
Oct	129.55	+0.20	-	-	581	57
Total					44,426	5,361

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold(troy oz)	$ price	£ equiv	SFr equiv
Close	383.20-383.50		
Opening	383.45-383.75		
Morning fix	383.80	241.071	443.897
Afternoon fix	383.25	240.901	444.187
Day's High	383.70-384.00		
Day's Low	382.85-383.15		
Previous close	384.00-384.30		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	5.08	6 months	4.82
2 months	5.02	12 months	4.63
3 months	5.00		

Silver Fix	p/troy oz.	US cts equiv.
Spot	328.95	523.00
3 months	333.60	529.75
6 months	338.70	536.30
1 year	349.65	549.60

Gold Coins	$ price	£ equiv.
Krugerrand	385-388	241-243
[illegible]	[illegible]	[illegible]
[illegible]	80-83	50-56

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Jun	385.4	+0.7	385.4	384.2	5,016	392
Aug	387.7	+0.7	387.8	388.3	75,724	25,409
Oct	390.8	+0.7	390.4	390.0	6,490	172
Dec	394.0	+0.6	394.1	392.6	33,562	5,484
Feb	396.9	+0.6	396.8	396.7	14,460	212
Total					173,529	31,854

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Jul	432.5	+2.0	433.8	429.8	10,982	1,112
Oct	434.3	+2.0	435.0	432.0	8,554	158
Jan	437.0	+2.0	437.0	435.0	1,703	107
Apr	439.0	+1.7	-	-	727	-
Jul	441.0	+1.3	-	-	155	-
Total					28,121	1,377

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Jun	156.70	+0.85	157.00	157.00	205	47
Sep	158.60	+0.85	159.00	157.50	5,101	973
Dec	160.60	+0.85	161.00	159.50	884	-
Total					6,190	1,020

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Jun	531.7	+9.7	531.7	520.0	2	1
Jul	533.0	+9.0	534.0	518.0	50,813	17,869
Sep	538.8	+8.6	539.0	524.0	14,348	1,130
Dec	546.0	+9.5	546.5	531.0	16,905	921
Jan	548.2	+9.5	-	-	18	-
Mar	552.9	+9.3	552.9	538.0	10,814	-
Total					109,829	19,922

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Jul	19.19	+0.05	19.25	19.07	74,067	40,793
Aug	19.01	+0.04	19.06	18.95	41,274	19,908
Sep	18.85	+0.03	18.89	18.81	31,133	8,942
Oct	18.72	+0.02	18.73	18.69	18,296	3,436
Nov	18.56	-0.04	18.60	18.58	18,202	1,297
Dec	18.51	-0.02	18.65	18.51	23,073	2,714
Total					330,691	88,995

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Jul	18.09	+0.09	18.08	17.96	53,187	18,258
Aug	17.73	+0.06	17.77	17.66	34,540	11,125
Sep	17.51	+0.04	17.54	17.49	17,045	2,693
Oct	17.37	-	17.43	17.37	16,632	870
Nov	17.33	+0.02	17.35	17.29	5,078	807
Dec	17.20	-0.01	17.24	17.19	12,263	715
Total					151,006	34,808

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Jul	49.75	-0.15	49.85	49.50	30,540	12,546
Aug	50.10	-0.15	50.20	50.00	14,699	4,736
Sep	50.80	-0.15	50.80	50.70	11,625	1,612
Oct	51.55	-0.20	51.60	51.50	5,631	202
Nov	52.40	-0.15	52.40	52.40	5,019	172
Dec	53.10	-0.30	53.40	53.10	18,189	2,017
Total					108,642	22,361

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jun	156.00	+0.50	156.75	155.75	19,175	2,893
Jul	153.75	+0.50	154.50	153.25	25,769	2,490
Aug	153.50	-	154.25	153.25	13,030	871
Sep	155.25	+0.25	155.50	155.00	9,977	898
Oct	158.00	+0.50	158.00	157.75	4,868	235
Dec	159.50	+0.50	159.50	159.25	3,538	455
Total					90,090	8,115

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Open int	Vol
Jul	1.710	+0.022	1.715	1.700	26,084	16,001
Aug	1.795	+0.016	1.805	1.785	20,234	3,729
Sep	1.820	+0.018	1.825	1.810	17,419	2,361
Oct	1.840	+0.015	1.845	1.835	13,068	1,241
Nov	1.910	+0.012	1.915	1.910	8,206	708
Dec	1.975	+0.005	1.980	1.975	14,631	1,386
Total					143,263	27,824

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Jul	61.60	+0.66	61.75	60.80	36,608	14,049
Aug	58.95	+0.38	59.10	58.45	18,358	5,772
Sep	57.35	+0.28	57.50	57.10	5,822	1,909
Oct	55.55	+0.30	55.55	55.50	3,117	308
Nov	54.75	+0.15	54.80	54.80	2,178	2
Dec	54.20	+0.10	54.30	54.20	3,011	15
Total					67,294	22,063

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	128.45	-0.20	128.50	128.25	908	10
Sep	108.55	-0.50	108.55	108.50	583	4
Nov	109.55	-0.40	-	-	3,145	-
Jan	111.85	-0.40	112.00	111.85	1,848	5
Mar	113.50	-0.30	-	-	547	-
May	115.05	-0.35	-	-	-	-
Total					7,076	19

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	385/6	-0/2	390/0	384/2	41,248	11,208
Sep	391/4	+1/0	396/2	389/0	15,462	3,323
Dec	404/4	+0/2	409/4	402/4	23,132	4,515
Mar	410/0	+1/4	412/6	406/0	1,698	346
May	389/0	-	-	-	27	2
Jul	355/0	-	361/0	355/0	291	53
Total					82,878	19,447

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	268/6	-3/4	271/0	268/4	128,912	20,168
Sep	275/2	-2/6	277/2	275/0	45,206	6,253
Dec	280/2	-3/0	282/4	279/0	206,911	42,072
Mar	285/4	-2/4	287/4	284/0	21,752	2,648
May	288/2	-2/2	289/2	286/4	4,642	534
Jul	289/2	-2/2	290/4	287/4	11,404	1,300
Total					425,382	74,843

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	106.50	-	-	-	175	-
Nov	107.65	-0.35	-	-	690	-
Jan	110.15	-0.20	-	-	332	-
Mar	112.00	-	-	-	116	-
May	113.75	-	-	-	20	-
Total					1,333	-

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	583/4	-1/6	589/2	581/0	54,700	26,030
Aug	588/6	-1/2	594/2	585/4	18,158	2,738
Sep	594/0	-1/0	599/0	592/0	8,956	1,863
Nov	602/0	-2/4	607/4	600/2	51,543	14,413
Jan	609/0	-2/2	614/4	608/4	4,476	550
Mar	616/2	-1/4	621/0	615/0	1,329	38
Total					142,249	45,988

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	25.97	+0.13	26.44	25.62	28,270	7,749
Aug	25.88	+0.08	26.32	25.58	11,749	1,478
Sep	25.85	+0.12	26.20	25.55	9,019	795
Oct	25.82	+0.11	26.15	25.55	6,091	229
Dec	25.76	+0.06	26.10	25.51	17,742	1,882
Jan	25.75	+0.07	26.00	25.55	1,137	53
Total					73,549	12,279

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	172.1	-0.6	173.5	171.4	35,827	12,152
Aug	174.0	-0.7	175.3	173.3	12,541	3,415
Sep	175.6	-1.2	177.2	175.4	10,059	1,865
Oct	177.7	-1.1	179.2	177.3	9,528	774
Dec	181.4	-0.9	182.8	180.7	15,162	2,112
Jan	181.8	-1.0	182.5	181.5	1,327	45
Total					84,824	20,404

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	307.5	-	-	-	-	-
Nov	85.0	-	-	-	-	-
Mar	107.5	-	-	-	-	-
Apr	109.3	-2.0	110.0	105.0	524	89
Total					528	89

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Open int	Vol
Jun	1903	+8	1903	1880	562	7
Jul	1768	+28	1769	1740	992	23
Aug	1780	+7	1785	1780		-
Oct	1769	+19	1769	1736	1,289	79
Jan	1730	+5	-	-	545	-
Apr	1733	-7	1733	1720	40	10
Total					3,474	124

	Close	Prev
BFI	2037	2055

Tea

Landed demand continued selective this week reports the Tea Brokers' Association. Brightest and selected good medium East Africans remained firm but light liquoring teas were easier by up to 6 pence. Colory mediums were about steady but plainer poor leaf types were heavily discounted where sold. Better Ceylons advanced but others lost ground. Offshore fair demand at generally lower levels. Quotations: best available: 140p/kg, good 120p/kg, good medium: 103p/kg, medium: 84p/kg, low medium: 65p/kg. Highest prices realised this week was 182p/kg for a kenya pf1.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	945	-16	951	944	27,142	612
Sep	965	-15	971	965	23,198	702
Dec	986	-16	991	984	22,234	473
Mar	1007	-15	1010	1008	28,741	68
May	1021	-15	-	-	8,586	-
Jul	1034	-15	-	-	2,310	-
Total					119,940	1,855

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	1300	-19	1323	1282	21,751	5,742
Sep	1332	-16	1352	1318	22,757	4,430
Dec	1368	-25	1388	1360	13,555	451
Mar	1408	-4	1420	1395	6,019	394
May	1421	-4	-	-	5,503	-
Jul	1441	-4	-	-	2,955	-
Total					77,241	11,887

■ COCOA (ICCO) (SDR's/tonne)

Jun 2	Price	Prev. day
Daily	935.65	954.68

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	2907	-	2915	2890	15,707	547
Sep	2872	-4	2884	2855	14,527	380
Nov	2866	-4	2877	2854	2,699	84
Jan	2863	-	2868	2847	649	35
Mar	2858	+5	-	-	481	-
May	2850	+5	-	-	-	-
Total					34,065	1,026

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	158.40	-1.20	159.25	158.00	17,079	6,058
Sep	161.05	-1.20	161.80	160.50	11,584	1,478
Dec	163.15	-1.30	163.45	163.00	4,905	422
Mar	165.40	-1.25	166.00	165.00	2,496	206
May	166.55	-1.25	-	-	193	-
Jul	167.55	-1.25	-	-	26	-
Total					36,294	8,160

■ COFFEE (ICO) (US cents/pound)

Jun 2	Price	Prev. day
Comp. daily	150.35	148.87
15 day average	151.53	152.22

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	13.27	+0.08	-	-	2,380	-
Oct	10.43	-0.10	-	-	-	-
Jan	13.25	-	-	-	-	-
Mar	10.10	-	-	-	2,000	-
Total					4,380	-

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Aug	349.0	+0.2	353.5	347.5	11,259	167
Oct	297.9	+1.6	300.5	295.2	5,684	212
Dec	283.9	-0.4	287.5	283.5	2,768	124
Mar	280.5	-0.8	285.2	279.0	2,499	35
May	283.0	-0.5	284.0	282.0	413	29
Aug	285.0	+0.2	285.0	284.0	199	5
Total					22,947	576

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	11.52	+0.09	11.56	11.33	47,441	8,454
Oct	10.03	-0.09	10.12	9.91	37,909	3,731
Mar	9.89	-0.12	9.92	9.78	22,184	1,221
May	9.83	-0.12	9.93	9.80	7,237	807
Jul	9.81	-0.06	9.87	9.75	8,464	268
Oct	9.86	-0.12	9.85	9.61	2,187	677
Total					125,976	14,986

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	107.75	-2.75	110.55	107.75	15,581	3,551
Oct	83.61	-0.99	84.80	82.95	9,797	1,433
Dec	78.45	-0.40	79.05	77.92	29,567	4,047
Mar	79.67	-0.38	80.10	79.10	10,303	809
May	80.35	-0.35	80.40	80.40	3,857	71
Jul	80.52	-0.78	-	-	1,867	21
Total					71,899	9,967

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	104.40	-1.30	106.55	104.30	11,704	1,271
Sep	108.70	-1.05	110.25	108.60	9,265	1,122
Nov	107.50	-1.25	109.10	107.50	2,051	135
Jan	109.75	-1.00	109.75	108.50	2,667	16
Mar	112.05	-0.95	-	-	856	54
May	117.50	+1.50	-	-	426	-
Total					26,968	2,598

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Jun 5	Jun 2	month ago	year ago
2305.4	2303.8	-	1974.5

■ CRB Futures (Base: 1967=100)

Jun 2	Jun 1	month ago	year ago
233.96	234.80	235.52	236.81

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jun	63.200	+0.850	63.450	62.550	16,633	8,354
Aug	62.700	+0.250	62.750	61.700	19,711	6,776
Oct	63.775	+0.650	63.875	63.250	13,307	1,886
Dec	64.575	+0.700	64.600	64.000	5,387	473
Feb	65.025	+0.875	65.050	64.450	3,511	68
Apr	65.650	+0.475	65.750	65.300	1,885	65
Total					60,523	17,646

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jun	43.850	+0.725	44.000	43.225	4,205	2,290
Aug	44.575	+0.775	44.675	43.600	7,011	2,434
Oct	42.025	+0.475	42.050	41.400	6,341	1,385
Dec	42.950	+0.150	43.000	42.700	5,303	425
Feb	43.900	+0.400	43.900	43.500	2,183	463
Apr	43.150	+0.200	43.150	42.900	870	45
Total					26,824	7,179

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	36.075	+0.900	36.150	34.000	4,778	1,542
Aug	34.975	+0.900	35.050	33.300	2,658	757
Feb	49.725	+0.850	49.725	48.400	292	52
Mar	48.250	-	-	-	32	3
May	49.350	+0.250	49.350	-	7	3
Jul	51.500	-0.500	51.500	50.000	-	-
Total					7,776	2,354

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Sep	Dec	Sep	Dec
1700	144	170	60	102
1750	116	145	815	125
1800	92	122	107	151
■ COPPER (Grade A) LME	Sep	Dec	Sep	Dec
2700	184	156	26	79
2800	126	106	56	125
2900	75	68	103	185
■ COFFEE LCE	Jul	Sep	Jul	Sep
3050	42	180	185	358
3100	31	166	224	394
3150	23	153	266	431
■ COCOA LCE	Sep	Dec	Sep	Dec
950	52	84	37	48
975	40	71	50	60
1000	30	60	65	74
■ BRENT CRUDE IPE	Jul	Oct	Jul	Oct
1750	55	61	6	73
1800	18	40	21	109
1850	4	28	58	144

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Jul)

		+or-
Dubai	$16.88-6.95z	-0.015
Brent Blend (dated)	$18.21-8.23	+0.270
Brent Blend (Jul)	$18.04-8.06z	+0.200
W.T.I. (1pm est)	$19.19-9.21z	+0.130

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$200-202	
Gas Oil	$159-160	+1
Heavy Fuel Oil	$94-96	
Naphtha	$191-193	
Jet fuel	$170-171	+1
Diesel	$159-160	

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

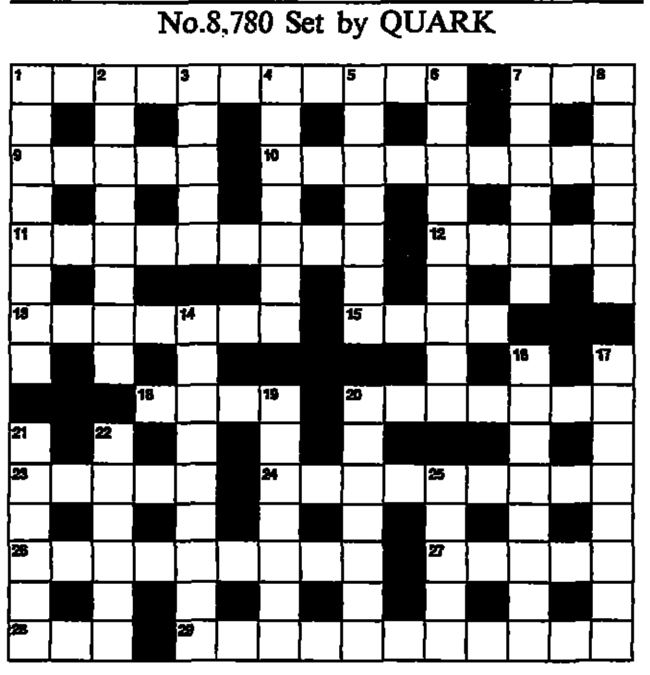
Gold (per troy oz)♣	$383.35	-0.80
Silver (per troy oz)♣	526.50c	-2.00
Platinum (per troy oz.)	$431.00	-1.00
Palladium (per troy oz.)	$156.25	-1.00
Copper (US prod.)	Unq.	
Lead (US prod.)	41.75c	
Tin (Kuala Lumpur)	15.30m	
Tin (New York)	305.50c	
Cattle (live weight)†	122.96p	+2.44*
Sheep (live weight)†♠	119.64p	+5.22*
Pigs (live weight)†	93.18p	+0.43*
Lon. day sugar (raw)	$341.9	-2.9
Lon. day sugar (wte)	$397.5	-3.5
Tate & Lyle export	£328.0	-1.0
Barley (Eng. feed)	Unq.	
Maize (US No3 Yellow)	£147.0	
Wheat (US Dark North)	Unq.	
Rubber (Jul)♥	105.00p	
Rubber (Aug)♥	105.00p	
Rubber (KL RSS No1)	396.5m	-4.0
Coconut Oil (Phil)§	$640.0y	
Palm Oil (Malay.)§	$630.0w	
Copra (Phil)§	416.0u	
Soyabeans (US)	160.0w	
Cotton Outlook'B' Index	108.50	-0.85
Wooltops (64s Super)	522p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. u May/Jun w Jun. z Jul. y Jun/Jul. q May ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week † Prices are for previous day.

JOTTER PAD

CROSSWORD

No.8,780 Set by QUARK



ACROSS

1 Traveller's means of maintenance – changing notes (11)
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10 RC? My angle is different, possibly (9)
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27 Is it needed for parking in home territory? (5)
28 One's often in a row (3)
29 Way to upset honest argument? Just a little way (6,5)

DOWN

1 Support of light beams (6)
2 Erect New Vic later (8)
3 The money raised on producing saltpetre (5)
4 Concealment of the south-east battle scene (7)
5 Supervise the lines in Old English (7)
6 Throw egg – fun nil, or overwhelming? (9)
7 Undistinguished piece of open land (6)
8 Speak jokingly of a stake in British Rail (6)
14 Scare with line about thefts (9)
16 The government post-holder is one in the cathedral (8)
17 Evade action over argument. It could grow by the way (8)
19 Distinguished musician rates exceptionally in a short time (7)
20 Probes, ie gets at partly, to assail with requests (7)
21 Subject of a barbershop quartet? (6)
22 Prevent free movement of food container (6)
25 Shatter mug at the range (5)

Solution to Saturday's prize puzzle on Saturday June 17.
Solution to yesterday's prize puzzle on Monday June 19.

INTERNATIONAL CAPITAL MARKETS

Spotlight likely to fall on D-Mark sector

By Antonia Sharpe

There was no new issuance in the eurobond market yesterday due to the *holiday in most of* continental Europe, but syndicate managers in London were busy pricing deals which could emerge later this week.

However, they noted that the strong rally in government bond markets in the US and Europe on Friday, which had caused spreads in the euro-

INTERNATIONAL BONDS

bond market to widen, and the lack of investor flows yesterday, made it difficult to price deals accurately.

"It's a shot in the dark," said one syndicate manager. Another said that when pricing deals yesterday there was a difference of as much as 15 basis points compared with Friday.

The focus this week is likely to be on the D-Mark sector, which continues to offer some arbitrage opportunities in the five-year area.

The highlight could be a global bond offering from L-Bank, which could raise between DM1bn and DM2bn and have a maturity of 10 years. The deal has not yet been mandated.

Rabobank is thought to be looking at raising five-year D-Marks. Other German state banks, such as Nord Deutsche Landesbank, could also tap the D-Mark sector soon and more D-Mark deals destined for Asia from frequent borrowers could also be forthcoming.

Elsewhere, Morgan Stanley is arranging a floating-rate note for Dean Witter Discover, the US brokerage with a large credit card operation. The deal, which will be senior holding company debt, could raise between $200m and $300m.

US retreats from overnight highs

By Lisa Bransten in New York and Conner Middelmann in London

US Treasuries continued to rise yesterday morning on the heels of Friday's rally, but by mid-morning prices were off the highs achieved in overnight trading in Asia and Europe.

In London, the benchmark 30-year Treasury climbed as much as ⅞ to yield 6.47 per cent, but by mid-day in New York the long-bond was trading just ⅛ higher at 114-23/32 to yield 6.490.

At the short end of the maturity spectrum, the two-year note was 1/16 higher in New York at 101¼ to yield 5.518.

Although bonds were stronger across the maturity spectrum, several analysts warned that the market might be due for some correction, even if only a modest one.

S.G. Warburg in New York, for example, reduced the bond portion of its *balanced portfolio* to 25 per cent from 35 per cent.

"The shift in the balanced portfolio mix reflects the sharp rally in bonds since late 1994, which has taken them to fair value," said Ms Gail Dudack, chief investment strategist at S.G. Warburg.

Trading volume was very light and little was released in the way of important economic news.

At 10am the Commerce Department reported that April completions of privately-owned housing units fell by 7 per cent from March.

GOVERNMENT BONDS

That data, however, did little to move the market because they do not provide much information about the economy in the second quarter.

■ With most European markets closed for a holiday, government bonds in the only active markets – UK, Italy and Spain – tracked US bonds *higher on light volume.*

Sentiment across Europe remains bullish, supported by continued strength in US Treasuries and hopes for interest rate cuts in the US and Europe. A pick-up in Japanese buying is also underpinning Europe's government bond markets, dealers said.

"We are beginning to see some healthy flows from Japanese investors who are going overseas after the bond market rally there has brought 10-year JGB yields below 3 per cent," said Mr Julian Jessop, European economist at HSBC Markets.

Europe's bond markets may also benefit from some switching out of US Treasuries, which have been outperforming Europe.

A risk to the European rally could be a correction in the US market, however, and dealers will be examining Friday's US producer prices data for confirmation of the subdued inflation picture.

■ UK gilts held on to Friday's gains, and the yield curve steepened again as short maturities outperformed the long end on continued interest rate optimism.

"All thoughts of an interest rate increase this week appear to have evaporated," said one senior dealer.

Mr Kenneth Clarke, the chancellor of the exchequer, and Mr Eddie George, Bank of England governor, are widely expected to leave interest rates unchanged at their policy meeting tomorrow.

Good demand for short-dated paper enabled the Bank of England to sell the shortest of the four gilt tranches it announced on Friday – £200m of 7 per cent stock due 2001 – fairly quickly.

Later in the day the other tranche of conventional stock – £200m of 8 per cent gilts due 2013 – was sold out. The two £100m tranches of index-linked stock *remained untouched.*

The June long gilt futures contract on Liffe ended at 109 5/32, up 1/32.

■ Italian and Spanish bonds ended the day higher, though their gains were posted on thin volume and largely in response to firmer US Treasuries.

Spain's June 10-year bond future rose 0.42 to 87.37 while Italy's 10-year contract gained 0.42 to 101.47.

Bank sees scope for mutual fund investment

By Conner Middelmann

European retail investors' interest in their respective equity markets remains muted, with subscriptions amounting to $900m in April, up from March but well down on early 1994, when they averaged $3bn a month.

However, "there remains considerable scope for large inflows into equity mutual funds in Europe, even assuming no increase in the 'equity culture' of retail investors," states J.P. Morgan in the first edition of a monthly publication which charts cash funds into European mutual funds.

This is particularly the case in France and Italy, where holdings of domestic equities as a percentage of the total portfolio of mutual fund assets have fallen. This leaves the potential for FFr35bn to FFr65bn of new investment in domestic equities in France, and in Italy L15,000bn, J.P. Morgan notes.

"These are significant sums of money and they could be sufficient to drive their individual equity markets higher in due course," it says.

Ms Caroline Méroz, an equity strategist at the US investment bank, says investors are using mutual fund flows data as a tool in analysing financial markets – especially in the US. "*It helps fund managers* – international and domestic – to gauge the sentiment and liquidity of a market," she says.

The assets of European mutual funds have increased by 45 per cent in the past four years and currently total *$1,000bn, with an equity component* of around $200m.

J.P. Morgan will be tracking funds invested in domestic equities in France, Germany, Italy, Netherlands, Spain, Sweden, the UK and the US.

Standby facility for Spain heavily oversubscribed

By Antonia Sharpe

Spain's new Ecu5bn five-year standby loan has been oversubscribed even before it reaches general syndication.

NatWest Markets, the sole arranger of the deal, said it had attracted 35 banks as underwriting lead managers with commitments of Ecu300m each. However, due to the strong demand, their commitments have been scaled back to Ecu150m.

SYNDICATED LOANS

The favourable response has also raised speculation that Spain could increase the size of the loan, which is replacing an existing facility signed in September 1993 that was not due to mature until 1996.

NatWest said such speculation was premature since general syndication had only just started and was not due to be completed for two weeks.

Spain will pay a facility fee of 4 basis points and a further margin of 4 basis points over the London interbank offered rate rate (Libor) on the new loan, making an all-in cost of 8 basis points. This compares with an all-in cost of 12.5 basis points over Libor on the old facility.

● *CEZ, the Czech Republic's* partly-privatised energy utility, is set to sign its $100m syndicated loan agreement on Thursday, writes Vincent Boland in Prague.

Capitalising on its triple B minus investment grade rating from Standard & Poor's and an *indicative A minus rating from* the Japan Bond Research Institute, the company expects the loan, which has been increased from an initial $75m, to be priced at 25 basis points over Libor.

The deal, which is being arranged by Sumitomo, will set a new benchmark for borrowers from eastern Europe.

Last year three of the Czech Republic's main banks signed syndicated loan agreements that each reduced the spreads on offer. This was followed in March by SPT Telecom, the state telephone company, which entered a $150m agreement at 35 basis points over Libor.

The loan agreement is the latest in a series of financing measures CEZ has undertaken to fund a large investment programme. The aim is to reduce pollution at coal-burning power stations in the Czech Republic and to complete the country's second nuclear plant, at Temelin, with Westinghouse, the US group.

Last week, CEZ launched the longest-dated bond yet issued on the Prague market – a Kcs8bn 10-year domestic issue with double the maturity of other Czech bonds, which could mark a significant step forward for Czech companies seeking long-term domestic capital. The issue was arranged by ABN Amro, CS First Boston and two Czech banks, Zivnostenska Banka and Ceska Sporitelna.

CEZ is also considering an international bond issue later this year following its *successful $150m eurobond last November.*

● RNGS, Russia's leading oil and gas construction company, will in the next few weeks offer another tranche of its government-owned shares to international investors, Mr J.D. Allen, company director, said yesterday, **Reuter reports.**

Mr Allen said the company planned to sell around 4 per cent more of the shares at about $450 a share. The shares pay a fixed 8 per cent annual dividend.

Telecom issue breathes life into Lisbon

By Peter Wise in Lisbon

Portugal Telecom is breathing new life into the Lisbon share market, dominating trading and inspiring the issue of the first warrant for a Portuguese equity. But the price has not climbed as strongly as expected after last week's heavily oversubscribed offer.

The shares closed at Es2,907 yesterday, up from Friday's close of Es2,900. This represents an increase of 3.82 per cent from the issue price of Es2,800, but it is short of the early 10 per cent gain envisaged by global co-ordinators Merrill Lynch, S.G. Warburg, Union Bank of Switzerland and Banco Essi.

Dealers expect some price-support buying from Portugal Telecom and the underwriters if the price fails to move more strongly upwards over the next few days.

Volume has been high for Lisbon. More than 1.5m Portugal Telecom shares were traded in only two hours on Friday, accounting for 75 per cent of total turnover.

The number fell to 590,600 yesterday but nevertheless accounted for 60 per cent of turnover. The company accounts for 16 per cent of Lisbon's total market capitalisation.

"Portugal Telecom has helped create the greater liquidity that institutional investors are looking for in Portugal," said Mr Trevenen Morris-Grantham, an analyst with Carnegie Portugal. "It is also a step towards redressing the balance of a market dominated by banks."

Underlining the importance of the placement to the Portuguese market, Bankers Trust has launched an issue of 1.25m call warrants on Portugal Telecom shares, the first to be issued on a Portuguese equity. Each warrant controls one Portugal Telecom share.

The warrants, traded in London and listed in Luxembourg, were issued to provide holders with liquidity in Portugal Telecom shares, following an offer *that left many investors with* only a fraction of the shares they ordered. The one-year warrants can be exchanged for shares at any time during their lifetime.

"We knew, as did everyone else in the market, that this issue would be oversubscribed and that the institutional allotment would be scaled back to provide for domestic retail demand," said Mr António Beck of Bankers Trust in London.

Bankers Trust ensured the acquisition of enough Portugal Telecom shares to cover the warrant issue, which is worth about $23m, by purchasing shares in Companhia Portuguesa de Rádio Marconi before the Portugal Telecom issue. Holders of Marconi shares *were guaranteed Portugal Telecom* shares in an exchange offer.

Bankers Trust International is the issuer and lead manager. Banco Português de Investimento is the co-lead manager.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		7.500	07/05	92.4100	+2.310	8.64	8.84	9.82
Austria		7.000	05/05	0.0000	-	0.00	6.99	7.32
Belgium		6.500	03/05	0.0000	-	0.00	7.42	7.84
Canada *		9.000	12/04	107.2500	-0.150	7.90	8.25	8.55
Denmark		7.000	12/04	0.0000	-	0.00	8.10	8.66
France	BTAN	7.750	04/00	0.0000	-	0.00	7.00	7.40
	OAT	7.500	04/05	0.0000	-	0.00	7.48	7.77
Germany Bund		*6.875*	*05/05*	*0.0000*	-	*0.00*	*6.68*	*7.05*
Ireland		6.250	10/04	0.0000	-	0.00	8.41	8.83
Italy		9.500	01/05	87.4000	+0.230	11.73†	12.11	13.04
Japan	No 119	4.800	06/99	110.0800	-0.270	2.09	2.13	2.56
	No 174	4.600	09/04	113.0850	+0.650	2.82	2.96	3.33
Netherlands		7.000	06/05	0.0000	-	0.00	6.75	7.12
Portugal		11.875	02/05	100.1000	+0.300	11.83	11.89	12.26
Spain		10.000	02/05	92.7400	+0.420	11.23	11.44	12.11
Sweden		6.000	02/05	0.0000	-	0.00	10.82	11.35
UK Gilts		6.000	08/99	95-09	+4/32	7.34	7.73	8.20
		8.500	12/05	105-19	-	7.71	7.93	8.36
		9.000	10/08	110-03	+2/32	7.77	7.99	8.36
US Treasury *		*8.500*	*05/05*	*103-10*	*-12/32*	*6.05*	*6.40*	*7.02*
		7.625	02/25	114-26	-10/32	6.49	6.75	7.34
ECU (French Govt)		6.000	04/04	0.0000	-	0.00	7.82	8.14

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime — Treasury Bills and Bond Yields

		One month	5.96	Two year	5.47
Prime rate	9	Two month	5.54	Three year	5.55
Broker loan rate	6½	Three month	5.58	Five year	5.72
Fed.funds	6 1/16	Six month	5.53	10-year	6.01
Fed.funds at intervention	-	One year	5.47	30-year	6.47

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000 (Jun 2)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	116.00	115.74	-	116.18	115.68	122,586	115,396
Sep	115.66	115.38	-0.02	115.74	115.34	10,443	39,197
Dec	115.44	115.18	-	115.50	115.28	125	2,017

■ LONG TERM FRENCH BOND OPTIONS (MATIF) (Jun 2)

Strike Price	Calls Jul	Calls Sep	Calls Dec	Puts Jul	Puts Sep	Puts Dec
114	1.64	-	-	0.21	0.80	-
115	0.95	1.53	-	0.46	1.08	-
116	0.46	1.01	-	-	1.60	-
117	0.19	0.60	-	1.73	-	-
118	0.05	0.37	-	-	-	-

Est. vol. total, Calls 15,730 Puts 9,146. Previous day's open int., Calls 132,846 Puts 121,044.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.06	96.14	+0.16	96.24	96.02	56027	69265
Sep	95.55	95.64	+0.16	95.72	95.49	33110	121161

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
9550	0.56	0.84	1.02	1.15	0.42	0.70	0.88	1.56
9600	0.33	0.61	0.78	0.95	0.69	0.97	1.14	1.86
9650	0.18	0.42	0.58	0.77	1.04	1.28	1.44	2.18

Est. vol. total, Calls 28528 Puts 4787. Previous day's open int., Calls 133483 Puts 103948

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	101.26	101.47	+0.42	101.55	101.18	24759	24735
Sep	100.77	101.13	+0.46	101.16	100.77	21036	21809

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
10100	2.07	2.94	1.94	3.20
10150	1.80	2.71	2.17	3.47
10200	*1.54*	*2.49*	*2.41*	*3.75*

Est. vol. total, Calls 1808 Puts 247. Previous day's open int., Calls 18335 Puts 12952

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	87.15	87.37	+0.43	87.70	87.05	37,544	40,860
Sep	87.00	87.13	+0.67	87.50	87.00	3,049	4,654

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	109-03	109-05	+0-02	109-12	109-00	5999	28811
Sep	108-23	108-22	+0-02	108-29	108-16	35184	106270

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
108	1-15	1-44	2-00	2-28	0-35	1-00	1-20	2-14
109	0-44	1-10	1-30	1-62	1-00	1-30	1-50	2-48
110	0-22	0-48	1-02	1-36	1-42	2-04	2-22	3-22

Est. vol. total, Calls 4043 Puts 2967. Previous day's open int., Calls 28094 Puts 29316

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000 (Jun 2)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	86.00	86.04	+0.12	86.38	86.00	1,994	8,013
Sep	85.86	85.88	+0.12	86.22	85.86	184	331

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	114-30	115-18	+0-22	115-26	114-30	62,9731	168,846
Sep	114-17	115-06	+0-22	115-15	114-17	584,540	236,734
Dec	114-14	114-22	+0-22	114-29	114-14	4,220	14,425

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	120.54			120.92	120.54	438	0
Sep	119.40			119.64	119.37	3206	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Mon Jun 5	Day's change %	Fri Jun 2	Accrued interest	xd adj. ytd		Low coupon yield Jun 5	Jun 2	Yr. ago	Medium coupon yield Jun 5	Jun 2	Yr. ago	High coupon yield Jun 5	Jun 2	Yr. ago
1 Up to 5 years (23)	122.80	+0.14	122.63	2.35	4.27	5 yrs	7.43	7.47	8.03	7.46	7.50	8.24	7.50	7.55	8.34
2 5-15 years (21)	147.88	+0.17	147.63	2.09	5.44	15 yrs	7.78	7.78	8.31	7.78	7.79	8.43	7.92	7.93	8.77
3 Over 15 years (9)	166.98	+0.13	167.81	1.89	6.08	20 yrs	7.78	7.79	8.27	7.79	7.80	8.43	7.91	7.91	8.56
4 Irredeemables (6)	191.11	-0.27	191.63	1.18	6.36	Irred.†	7.86	7.84	8.37						
5 All stocks (59)	143.69	+0.15	143.65	2.18	5.18										

Index-linked							Inflation 5% Jun 5	Jun 2	Yr. ago	Inflation 10% Jun 5	Jun 2	Yr. ago
6 Up to 5 years (2)	196.07	-	156.08	0.91	2.57	Up to 5 yrs	2.99	2.97	3.73	1.47	1.45	2.76
7 Over 5 years (11)	187.65	-0.06	187.76	1.33	1.73	Over 5 yrs	3.52	3.52	3.77	3.33	3.33	3.59
8 All stocks (13)	187.65	-0.05	187.75	1.29	1.81							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Jun 5	Jun 2	Jun 1	May 31	May 30	Yr ago	High*	Low*
Govt. Secs. (UK)	95.51	95.24	94.81	94.31	94.39	93.13	95.51	90.22
Fixed Interest	114.60	113.96	113.55	113.68	113.59	110.71	114.60	108.77

* for 1995. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Jun 2	Jun 1	May 31	May 30	May 26
Gilt Edged bargains	87.5	88.9	109.4	109.3	104.9
5-day average	100.0	128.1	128.5	127.2	121.1

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on June 5

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
ABBEY NATL TREASURY 5 97	1000	98⅝	98¾		5.88
Abbey Natl Treasury 6½ 03	1000	99⅜	99¾	+⅛	6.60
African Dev Bk 7¾ 23	500	101⅛	101⅜	-⅛	7.27
Alberta Province 7⅝ 98	1000	104⅞	105⅛		5.99
Austria 8½ 00	400	109½	109⅞	-⅛	6.07
Baden-Wuertt L-Fin 8⅛ 00	1000	107⅞	108	-⅛	6.11
Bank Ned Gemeenten 7 99	1000	104	104¼		5.89
Bayer Vereinsbk 8⅛ 00	500	107⅞	108⅛	-⅛	6.11
United Kingdom 7¼ 97	5500	104⅜	104⅝		5.12
Volkswagen Intl Fin 7 03	1000	100¼	100¾	+¼	6.96
World Bank 0 15	2000	24⅜	24¾	-⅛	7.11
World Bank 5⅞ 03	3000	95⅛	95¼	+¼	6.64
World Bank 8¾ 00	1250	113	114⅛	-⅛	5.62
SWISS FRANC STRAIGHTS					
Asian Dev Bank 6 10	100	105	105		5.51
Austria 4½ 00	1000	101½	101¾		4.14
Abbey Natl Treasury 8 03 £	1000	98¾	98⅝	+¼	8.28
Alliance Leics 11¾ 97 £	100	106⅞	107⅛	+¼	7.40
British Land 8⅞ 23 £	150	95¼	95⅝	+⅛	9.57
Denmark 6¾ 98 £	800	97⅞	98⅛	+¼	7.50
EIB 8 03 £	1000	99⅞	100⅛	+⅛	8.02
Halifax 10⅜ 97 £	100	104⅞	105⅛	+⅛	7.28
Hanson 10⅜ 97 £	500	105⅝	105⅞	+¼	7.65
HSBC Holdings 11.69 02 £	153	115¾	115¾	+⅛	8.70
Italy 10½ 14 £	400	111½	111⅞	+⅛	9.19
[illegible]					

[illegible]

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or –	1995 High	1995 Low
Shorts" (Lives up to Five Years)							
Exch 10¼pc 1995		10.19	6.27	100⅝	—	101⅞	100⅝
Treas 12¾pc 1995‡‡		12.41	6.29	102¾	—	104⅞	102¾
14pc 1996		13.38	6.26	104⅝	—	106⅞	104⅝
15¼pc 1996‡‡		14.17	6.32	107⅝	+⅛	109⅝	107⅛
Treas 8¾pc 2004‡‡		7.23	7.74	93⅝	+⅛	93⅝	86⅛
Conv 9½pc 2005		8.49	7.75	111⅞	+⅛	111⅞	103⅝
Treas 12½pc 2003-5		9.71	7.79	128¾	+¼	128¾	119⅞
Treas 8½pc 2005‡‡		8.04	7.78	105⅝xd	+⅛	105⅝	97⅝
7¾pc 2006‡‡		7.78	7.78	99⅝	+⅛	99⅝	92⅛
[illegible]							

Index-Linked	Notes	(1)	(2)	Price £	+ or –	1995 High	1995 Low
2pc '96	(67.9)	1.08	3.04	210⅞	-⅛	210⅞	201⅛
4⅝pc '98‡‡	(135.6)	1.93	2.89	112	—	112	106⅛
2½pc '01	(78.3)	2.87	3.32	176⅜	-⅛	176⅝	165⅜
2½pc '03	(78.8)	3.05	3.40	172¼		172¼	161⅞
[illegible]							

Other Fixed Interest

[illegible]

* "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock.

CURRENCIES AND MONEY

MARKETS REPORT

Market attention shifts to UK interest rates

The downward drift in UK interest rates was a focus of attention yesterday with currency markets taking a back seat owing to holidays in Europe, *writes Philip Gawith.*

Two days ahead of the monthly monetary meeting, three-month LIBOR slipped to 6⅝ per cent, a full 25 basis points below the 6¾ per cent base rate. This led some observers to question the extent to which the Bank of England had effective control over the level of short term interest rates in the market.

Elsewhere the dollar had an uneventful day as bulls and bears sparred ineffectually with each other. It finished in London at DM1.4074 from DM1.406. Against the yen it closed at Y84.645 from Y84.13.

In Europe, French and German markets were closed, but the French franc managed to make up some ground against the D-Mark, finishing at FFr3.501 from FFr3.519.

Sterling had an uneventful day, with the exchange rate index finishing at 84.2, from 84.0.

■ The advent of the monthly meetings between the chancellor and the governor of the Bank of England, bringing with them a more transparent and formalised process of monetary policy formulation, have reduced the importance of the Bank's daily money market operations. Minute attention to the monetary tea-leaves is unlikely to offer the dividends it once might have done.

That said, market rates can still offer an insight into market expectations, and the Bank certainly watches key short term rates to ensure they do not diverge too far from official rates. The 25 basis point gap between the base rate and three month money has led some analysts to wonder whether the Bank might not be trying to close this gap.

Mr Philip Shaw, economist at Union Discount in London, said: "Traditionally the Bank tends to get a little nervous if three month LIBOR goes too far below base rate." He said there had been a few signs that the Bank was trying to scale back its daily assistance to push up overnight money and other period rates.

Mr Nick Parsons, treasury economist at Standard Chartered in London, agreed that the Bank's daily operations in recent days raised the question of whether it had been trying to send a message.

Others surmise that 25 basis points is well within the Bank's accepted tolerance level, arguing that it requires an active imagination to discern any pattern in the Bank's activity over the past few days.

Mr Parsons expressed surprise at the speed with which the market had revised down its expectations for UK interest rates. He said it smacked of a move that had gone "too far, too fast. The curve has flattened so dramatically that there is barely any premium for risk."

Against this backdrop, Mr Parsons said it would be reasonable for the Bank to want to see rates higher. "I think the Bank will be unhappy with the flatness of the UK yield curve at the moment, and its inability to change that."

The level of market rates seems unlikely to have any material impact on tomorrow's meeting. Short term rates tend to be a function of liquidity conditions in the market. Official rates, by contrast, are aimed at tailoring monetary policy on an 18 month time horizon. It would be quite possible, in other words, to tighten monetary policy despite market rates remaining soft.

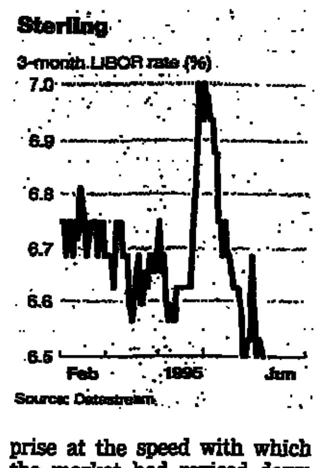
In its daily operations the Bank provided late assistance of £155m, and £750m at established rates, after forecasting a £900m shortage. Overnight money traded between 4½ per cent and 6⅞ per cent.

■ The dollar is not expected to make any sharp moves before the G7 summit starts next week. Mr Peter Luxton, analyst at MMS in London, said the market was nervous, unable to decide whether a recession was good or bad for the dollar. In the meantime, last week's central bank intervention appeared to have put a floor under the currency.

Mr Tim Fox, economist at Credit Suisse, said the proximity of the G7 summit, and expectations of a settlement in the US-Japan trade dispute, provided the market with psychological reasons not to sell the dollar, rather than any reason for buying it.

He said the price action of the dollar last week, particularly the response to news of a Nato plane being shot down in Bosnia, "indicates the market wants to have an excuse not to be selling it too dramatically."

Sterling



Source: Datastream

■ Pound in New York

Jun 5	—Latest—	— Prev. close —
£ spot	[illegible]	[illegible]
1 mth	[illegible]	[illegible]
3 mth	[illegible]	[illegible]
1 yr	[illegible]	[illegible]

■ OTHER CURRENCIES

Jun 5	£	$
Hungary	194.855 - 195.009	122.220 - 122.270
Iran	4764.70 - 4782.80	3000.00 - 3000.00
Kuwait	0.4757 - 0.4767	0.2984 - 0.2989
Poland	3.7397 - 3.7389	2.3400 - 2.3430
Russia	7619.79 - 7821.63	4903.00 - 4906.00
U.A.E.	5.8549 - 5.8579	3.6724 - 3.6729

POUND SPOT FORWARD AGAINST THE POUND

Jun 5		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.7803	+0.0516	732 - 874	15.7874	15.7203	15.7572	1.8	15.71	1.8	-	-	105.9
Belgium	(BFr)	46.0043	+0.1421	637 - 449	46.0449	45.8260	45.9393	1.7	45.8093	1.7	45.1993	1.7	109.8
Denmark	(DKr)	8.7504	+0.0262	447 - 560	8.7597	8.7249	8.754	-0.5	8.7458	0.2	8.7149	0.4	110.1
Finland	(FM)	6.8672	+0.0093	619 - 724	6.8790	6.8320	-	-	-	-	-	-	87.1
France	(FFr)	7.8558	-0.0153	536 - 581	7.8622	7.8410	7.8637	-1.2	7.8743	-0.9	7.8419	0.2	108.7
Germany	(DM)	2.2442	+0.0073	433 - 451	2.2474	2.2382	2.2408	1.8	2.233	2.0	2.1938	2.3	111.8
Greece	(Dr)	360.093	+1.02	945 - 240	360.589	357.930	-	-	-	-	-	-	68.7
Ireland	(I£)	0.9804	+0.0031	796 - 812	0.9815	0.9795	0.98	0.5	0.9798	0.2	0.9801	0.0	97.2
Italy	(L)	2589.25	-15.24	755 - 092	2601.28	2584.11	2598.73	-4.4	2618.23	-4.2	2687.73	-3.8	68.2
Luxembourg	(LFr)	46.0043	+0.1421	637 - 449	46.0449	45.8260	45.9393	1.7	45.8093	1.7	45.1993	1.7	109.8
Netherlands	(Fl)	2.5079	+0.0108	066 - 091	2.5104	2.5017	2.5036	2.0	2.5001	1.2	2.4478	2.4	109.5
Norway	(NKr)	9.9639	+0.0305	590 - 687	9.9769	9.9330	9.9582	1.0	9.9318	1.3	9.8043	1.6	99.1
Portugal	(Es)	235.682	-0.335	559 - 806	236.357	234.943	234.817	4.4	237.987	-3.9	-	-	95.6
Spain	(Pta)	193.377	-0.248	293 - 461	194.283	193.018	193.677	-3.1	194.652	-3.4	198.077	-3.4	81.4
Sweden	(SKr)	11.5254	-0.0684	182 - 326	11.6091	11.5005	11.5367	-0.2	11.5502	-0.2	11.5488	-0.2	78.3
Switzerland	(SFr)	1.8458	+0.0058	448 - 469	1.8482	1.8406	1.8412	3.0	1.8309	3.2	1.7828	3.4	113.6
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	84.2
Ecu	-	1.2112	-	106 - 118	1.2212	1.2096	1.2113	0.0	1.21	0.4	1.2028	0.7	-
SDR†	-	1.022200	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5944	+0.0043	940 - 947	1.5962	1.5880	-	-	-	-	-	-	-
Brazil	(R$)	1.4392	+0.0033	385 - 418	1.4418	1.4341	-	-	-	-	-	-	-
Canada	(C$)	2.1952	+0.0049	944 - 960	2.1980	2.1837	2.1977	-1.4	2.2005	-1.0	2.1913	0.2	82.1
Mexico	(New Peso)	9.9106	+0.0781	847 - 366	9.9362	9.8198	-	-	-	-	-	-	-
USA	($)	1.5946	+0.0036	943 - 949	1.5955	1.5862	1.5941	0.4	1.5922	0.6	1.5762	1.2	85.5
Pacific/Middle East/Africa													
Australia	(A$)	2.2285	+0.0064	273 - 297	2.2308	2.2281	2.2307	-1.2	2.2341	-1.0	2.2434	-0.7	77.3
Hong Kong	(HK$)	12.3331	+0.0291	300 - 362	12.3393	12.2693	12.3291	0.4	12.3197	0.4	12.2528	0.7	-
India	(Rs)	50.0525	+0.0732	451 - 799	50.0830	49.8150	-	-	-	-	-	-	-
Israel	(Shk)	4.7903	+0.0111	862 - 944	4.8095	4.7395	-	-	-	-	-	-	-
Japan	(Y)	134.975	+1.124	910 - 040	135.040	133.580	134.41	5.0	133.155	5.4	127.295	5.7	189.8
Malaysia	(M$)	3.9121	+0.0086	105 - 136	3.9136	3.8933	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3837	+0.003	820 - 854	2.3861	2.3629	2.3885	-2.4	2.3978	-2.3	2.4143	-1.3	98.5
Philippines	(Peso)	41.2205	+0.0931	532 - 877	41.3877	41.0841	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.9811	+0.0137	796 - 825	5.9841	5.9495	-	-	-	-	-	-	-
Singapore	(S$)	2.2181	+0.0058	169 - 193	2.2193	2.2075	-	-	-	-	-	-	-
South Africa	(R)	5.8845	+0.0171	822 - 868	5.8868	5.8370	-	-	-	-	-	-	-
South Korea	(Won)	1214.21	+2.27	380 - 452	1214.81	1207.89	-	-	-	-	-	-	-
Taiwan	(T$)	40.9286	+0.0383	161 - 411	40.9469	40.7178	-	-	-	-	-	-	-
Thailand	(Bt)	39.3229	+0.1206	985 - 462	39.3462	39.1360	-	-	-	-	-	-	-

† Rates for Jun 2. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 5		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	9.8961	+0.01	935 - 987	9.9335	9.8845	9.8841	1.5	9.8641	1.3	9.7696	1.3	108.8
Belgium	(BFr)	28.8500	+0.024	300 - 700	29.0110	28.8100	28.815	1.5	28.78	1.2	28.64	0.7	109.5
Denmark	(DKr)	5.4875	+0.0053	850 - 900	5.5185	5.4798	5.4912	-0.8	5.4995	-0.9	5.535	-0.9	108.9
Finland	(FM)	4.3065	-0.0039	040 - 090	4.3283	4.2930	4.3047	0.5	4.3015	0.5	4.301	0.1	85.9
France	(FFr)	4.9265	-0.0208	260 - 270	4.9600	4.9200	4.933	-1.8	4.9455	-1.5	4.9755	-1.0	107.7
Germany	(DM)	1.4074	+0.0014	071 - 077	1.4155	1.4052	1.4057	1.4	1.4024	1.4	1.3917	1.1	111.0
Greece	(Dr)	225.820	+0.13	770 - 870	227.200	225.000	227.82	-10.6	231.57	-10.2	247.32	-9.5	67.9
Ireland	(I£)	1.6265	-0.0016	255 - 275	1.6275	1.6185	1.6271	-0.4	1.6289	-0.6	1.6337	-0.4	-
Italy	(L)	1623.75	-13.25	300 - 450	1636.25	1623.00	1630.25	-4.8	1643	-4.7	1703.25	-4.9	67.1
Luxembourg	(LFr)	28.8500	+0.024	300 - 700	29.0110	28.8100	28.815	1.5	28.78	1.2	28.64	0.7	109.5
Netherlands	(Fl)	1.5727	+0.0032	722 - 732	1.5820	1.5717	1.5708	1.6	1.5666	1.5	1.5545	1.2	108.9
Norway	(NKr)	6.2485	+0.0065	460 - 510	6.2860	6.2375	6.2497	-0.2	6.2425	0.4	6.235	0.2	97.9
Portugal	(Es)	147.800	-0.545	750 - 850	148.680	147.730	148.25	-3.7	149.25	-3.9	155.05	-4.9	95.2
Spain	(Pta)	121.270	-0.43	240 - 300	122.150	121.100	121.61	-3.4	122.41	-3.8	126.745	-4.5	80.5
Sweden	(SKr)	7.2265	-0.06	215 - 315	7.3151	7.2162	7.2422	-2.6	7.278	-2.9	7.464	-3.3	77.1
Switzerland	(SFr)	1.1575	+0.001	570 - 580	1.1650	1.1560	1.1549	2.7	1.15	2.6	1.1329	2.1	112.3
UK	(£)	1.5946	+0.0036	943 - 949	1.5955	1.5862	1.5941	0.4	1.5922	0.6	1.5762	1.2	83.7
Ecu	-	1.3165	+0.0029	161 - 169	1.3171	1.3025	1.3163	0.1	1.3162	0.1	1.3122	0.3	-
SDR†	-	0.64040	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	+0.0004	998 - 999	1.0000	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	0.9025	-	010 - 040	0.9040	0.9030	-	-	-	-	-	-	-
Canada	(C$)	1.3767	-	764 - 769	1.3785	1.3758	1.3782	-1.2	1.3814	-1.4	1.3932	-1.2	80.8
Mexico	(New Peso)	6.2150	+0.035	000 - 300	6.2500	6.1600	6.2172	-0.4	6.2204	-0.4	6.2253	-0.2	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	89.9
Pacific/Middle East/Africa													
Australia	(A$)	1.3974	+0.0006	970 - 980	1.4047	1.3970	1.399	-1.4	1.4029	-1.8	1.4241	-1.9	78.6
Hong Kong	(HK$)	7.7343	+0.0005	338 - 348	7.7352	7.7338	7.7329	0.3	7.7321	0.1	7.7478	-0.2	-
India	(Rs)	31.3950	-0.025	900 - 000	31.4000	31.3900	31.475	-3.1	31.72	-4.1	-	-	-
Israel	(Shk)	3.0041	+0.0002	021 - 061	3.0220	2.9701	-	-	-	-	-	-	-
Japan	(Y)	84.6450	-0.515	200 - 700	84.8700	84.0200	84.31	4.7	83.645	4.7	80.94	4.4	172.4
Malaysia	(M$)	2.4533	-0.0002	528 - 538	2.4567	2.4528	2.4513	1.0	2.4489	0.7	2.4433	0.4	-
New Zealand	(NZ$)	1.4948	-0.0015	941 - 957	1.5023	1.4941	1.4982	-2.7	1.505	-2.7	1.5242	-2.0	-
Philippines	(Peso)	25.8500	-	500 - 500	25.9500	25.7500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7508	+0.0001	506 - 510	3.7510	3.7506	3.7517	-0.3	3.7538	-0.3	3.7658	-0.4	-
Singapore	(S$)	1.3910	+0.0005	905 - 915	1.3915	1.3905	1.3858	4.5	1.3775	3.9	1.351	2.9	-
South Africa	(R)	3.6778	+0.0025	770 - 785	3.6890	3.6770	3.6988	-6.9	3.7498	-7.8	4.0058	-8.9	-
South Korea	(Won)	761.450	-0.3	400 - 500	762.500	761.400	764.45	-4.7	767.95	-3.4	786.45	-3.3	-
Taiwan	(T$)	25.6670	-0.034	640 - 700	25.6890	25.6640	25.687	-0.9	25.727	-0.9	-	-	-
Thailand	(Bt)	24.6600	+0.02	500 - 700	24.6700	24.6200	24.681	-1.0	24.7075	-0.8	24.795	-0.5	-

† SDR rate per $ for Jun 2. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 2. Base average 1990=100

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 5		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.02	17.08	4.878	2.130	5628	5.450	21.66	512.2	420.4	25.04	4.013	2.174	4.772	3.467	293.3	2.633
Denmark	(DKr)	52.57	10	8.978	2.565	1.120	2959	2.865	11.39	269.3	221.0	13.17	2.110	1.143	2.509	1.823	154.2	1.384
France	(FFr)	58.55	11.14	10	2.856	1.247	3296	3.191	12.68	299.9	246.2	14.66	2.350	1.273	2.794	2.030	171.7	1.541
Germany	(DM)	20.50	3.899	3.501	1	0.437	1154	1.117	4.440	105.0	86.19	5.134	0.823	0.446	0.978	0.711	60.12	0.540
Ireland	(I£)	46.94	8.929	8.016	2.290	1	2642	2.558	10.17	240.4	197.3	11.76	1.884	1.020	2.240	1.628	137.7	1.236
Italy	(L)	1.777	0.338	0.303	0.087	0.038	100.	0.097	0.385	9.100	7.470	0.445	0.071	0.039	0.085	0.062	5.211	0.047
Netherlands	(Fl)	18.35	3.490	3.134	0.895	0.391	1033	1	3.974	93.98	77.14	4.595	0.736	0.399	0.876	0.636	53.81	0.483
Norway	(NKr)	46.17	8.782	7.884	2.252	0.984	2598	2.516	10	236.5	194.1	11.56	1.853	1.004	2.203	1.601	135.4	1.215
Portugal	(Es)	19.52	3.714	3.334	0.952	0.416	1099	1.064	4.229	100.	82.09	4.890	0.784	0.424	0.932	0.677	57.26	0.514
Spain	(Pta)	23.78	4.524	4.062	1.160	0.507	1339	1.296	5.152	121.8	100.	5.957	0.954	0.517	1.135	0.825	69.75	0.626
Sweden	(SKr)	39.93	7.595	6.819	1.948	0.851	2247	2.176	8.649	204.5	167.9	10	1.602	0.868	1.905	1.385	117.1	1.051
Switzerland	(SFr)	24.92	4.740	4.256	1.216	0.531	1402	1.358	5.398	127.6	104.8	6.241	1	0.542	1.189	0.864	73.08	0.656
UK	(£)	46.00	8.750	7.856	2.244	0.980	2589	2.507	9.964	235.6	193.4	11.52	1.846	1	2.195	1.595	134.9	1.211
Canada	(C$)	20.96	3.986	3.579	1.022	0.446	1179	1.142	4.539	107.3	88.11	5.248	0.841	0.456	1	0.727	61.46	0.552
US	($)	28.84	5.486	4.925	1.407	0.614	1623	1.572	6.247	147.7	121.3	7.223	1.157	0.627	1.376	1	84.58	0.759
Japan	(Y)	34.10	6.486	5.824	1.663	0.726	1919	1.858	7.386	174.6	143.4	8.540	1.368	0.741	1.627	1.182	100.	0.898
Ecu		37.98	7.225	6.487	1.853	0.809	2138	2.070	8.228	194.5	159.7	9.513	1.524	0.826	1.813	1.317	111.4	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7104	0.7086	-	0.7117	0.7068	33,881	61,164
Sep	0.7135	0.7109	-0.0002	0.7160	0.7094	5,311	11,805
Dec	0.7138	0.7138	+0.0006	0.7138	0.7130	42	1,384

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.8632	0.8612	+0.0008	0.8645	0.8592	14,305	23,499
Sep	0.8680	0.8666	+0.0009	0.8680	0.8652	769	3,928
Dec	0.8710	0.8715	+0.0001	0.8725	0.8705	56	732

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.1884	1.1820	-0.0039	1.1922	1.1802	21,649	57,459
Sep	1.2025	1.1961	-0.0031	1.2029	1.1945	2,037	8,711
Dec	1.2080	1.2110	-0.0052	1.2110	1.2080	30	873

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.5902	1.5882	+0.0004	1.5912	1.5858	14,754	24,956
Sep	1.5870	1.5846	-0.0006	1.5872	1.5830	1,767	3,173
Dec	-	1.5780	-	1.5810	1.5780	4	175

EMS EUROPEAN CURRENCY UNIT RATES

Jun 2	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.15214	2.08717	-0.00558	-3.02	5.79	-
Belgium	39.3960	38.2881	-0.031	-2.81	5.56	21
Austria	13.4383	13.1221	-0.0273	-2.40	5.06	-
Germany	1.91007	1.86626	-0.00383	-2.29	5.00	-
Spain	162.493	161.901	-0.138	-0.36	2.97	3
Denmark	7.28580	7.28370	-0.01642	-0.03	2.62	0
Portugal	195.792	197.175	+0.163	0.71	1.87	-5
Ireland	0.792214	0.811569	+0.003947	2.44	0.15	-16
France	6.40608	6.57228	+0.00086	2.59	0.00	-22
NON ERM MEMBERS						
Greece	292.867	299.793	+0.488	2.36	0.22	–
Italy	2106.15	2168.22	+11.03	2.95	-0.34	–
UK	0.786652	0.829680	+0.005336	5.47	-2.73	–

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.

(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	PUTS Jun	PUTS Jul	PUTS Aug
1.525	6.22	-	-	-	0.23	0.64
1.550	3.84	-	-	0.08	-	-
1.575	1.86	2.68	3.28	0.56	1.44	2.14
1.600	0.62	1.50	2.12	1.74	3.35	3.56
1.625	0.11	0.72	1.26	3.68	4.35	4.98
1.650	-	0.28	-	6.04	-	-

Previous day's vol., Calls 6,901 Puts 32,186 . Prev. day's open int., Calls 281,085 Puts 363,047

BASE LENDING RATES

	%		%		%
Adam & Company	6.75	Duncan Lawrie	6.75	* Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	10
Allied Trust Bank	6.75	Exeter Bank Limited	7.75	Royal Bk of Scotland	6.75
AIB Bank	6.75	Financial & Gen Bank	7.50	●Singer & Friedlander	6.75
●Henry Ansbacher	6.75	●Robert Fleming & Co	6.75	●Smith & Williamson Secs	6.75
Bank of Baroda	6.75	Girobank	6.75	TSB	6.75
Banco Bilbao Vizcaya	6.75	●Guinness Mahon	6.75	Unity Trust Bank Plc	6.75
Bank of Cyprus	6.75	Habib Bank AG Zurich	6.75	Western Trust	6.75
Bank of Ireland	6.75	●Hambros Bank	6.75	Whiteaway Laidlaw	6.75
Bank of India	6.75	Heritable & Gen Inv Bk	6.75	Yorkshire Bank	6.75
Bank of Scotland	6.75	●Hill Samuel	6.75		
Barclays Bank	6.75	C. Hoare & Co	6.75	● Members of London Investment Banking Association	
Brit Bk of Mid East	6.75	Hongkong & Shanghai	6.75	* In administration	
●Brown Shipley & Co Ltd	6.75	Julian Hodge Bank	6.75		
Citibank NA	6.75	●Leopold Joseph & Sons	6.75		
Clydesdale Bank	6.75	Lloyds Bank	6.75		
The Co-operative Bank	6.75	Meghraj Bank Ltd	6.75		
Coutts & Co	6.75	Midland Bank	6.75		
Credit Lyonnais	6.75	● Mount Banking	6.75		
Cyprus Popular Bank	6.75	NatWestminster	6.75		
		●Rea Brothers	6.75		

UK INTEREST RATES

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.37	93.35	-0.01	93.39	93.34	9165	67370
Sep	93.23	93.21	-0.01	93.28	93.20	21942	106946
Dec	93.12	93.12	-	93.18	93.10	12347	81242
Mar	92.94	92.97	+0.03	93.05	92.94	9052	43853

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9325	0.15	0.24	0.34	0.05	0.28	0.47
9350	0.03	0.13	0.24	0.18	0.42	0.62
9375	0	0.06	0.15	0.40	0.60	0.78

Est. vol. total, Calls 11343 Puts 5141. Previous day's open int., Calls 208559 Puts 213509

WORLD INTEREST RATES

MONEY RATES

June 5	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	4½	5⅛	5⅛	5¼	5⅛	7.40	4.00	–
week ago	4½	5⅛	5	5⅛	5⅜	7.40	4.00	–
France	7⅝	7⅝	7⅝	6¾	6⅝	5.00	–	8.00
week ago	7⅝	7⅝	7⅝	7⅛	6¾	5.00	–	8.00
Germany	4⅜	4½	4½	4½	4½	6.00	4.00	4.51
week ago	4½	4½	4½	4⅝	4½	6.00	4.00	4.51
Ireland	6¼	6⅜	6½	6⅞	6⅞	–	–	6.25
week ago	6⅜	6⅜	6⅞	6⅞	7⅛	–	–	6.25
Italy	10⅝	10⅝	10⅝	10¾	10⅞	–	7.50	10.40
week ago	10¼	10⅝	10⅝	10⅞	11⅛	–	7.50	10.40
Netherlands	4⅜	4⅜	4¼	4¼	4⅜	–	5.25	–
week ago	4⅜	4⅜	4⅜	4½	4⅝	–	5.25	–
Switzerland	3	3¼	3¼	3⅜	3⅜	6.625	3.00	–
week ago	2⅞	3¼	3¼	3⅜	3½	6.625	3.00	–
US	6	6	5⅞	5⅞	5⅝	–	5.25	–
week ago	6	6	6	6	6	–	5.25	–
Japan	1¼	1¼	1⅛	1⅛	1⅛	–	1.00	–
week ago	1⅜	1¼	1⅛	1⅛	1⅜	–	1.00	–
■ $ LIBOR FT London								
Interbank Fixing	–	6	5⅞	5¾	5⅞	–	–	–
week ago	–	6	6⅛	6⅛	6⅛	–	–	–
US Dollar CDs	–	5.78	5.66	5.51	5.47	–	–	–
week ago	–	5.78	5.79	5.78	5.79	–	–	–
ECU Linked Ds	–	6⅛	6⅛	6⅛	6⅛	–	–	–
week ago	–	6⅛	6⅛	6⅛	6⅞	–	–	–
SDR Linked Ds	–	3⅞	3⅞	3⅞	3⅞	–	–	–
week ago	–	3⅞	4⅛	4⅛	4⅛	–	–	–

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jun 5	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	4⅝ - 4½	4$\frac{11}{16}$ - 4$\frac{9}{16}$	4$\frac{11}{16}$ - 4$\frac{9}{16}$	4⅞ - 4¾	5 - 4⅞	5¼ - 5⅛
Danish Krone	6½ - 6	6⅝ - 6⅜	6¾ - 6½	6¾ - 6½	6¾ - 6½	6¾ - 6½
D-Mark	4⅝ - 4½	4$\frac{9}{16}$ - 4$\frac{7}{16}$	4½ - 4⅜	4$\frac{7}{16}$ - 4$\frac{5}{16}$	4$\frac{7}{16}$ - 4$\frac{5}{16}$	4½ - 4⅜
Dutch Guilder	4¼ - 4⅛	4⅜ - 4⅛	4$\frac{5}{16}$ - 4$\frac{3}{16}$	4$\frac{7}{16}$ - 4$\frac{5}{16}$	4⅜ - 4¼	4$\frac{7}{16}$ - 4$\frac{5}{16}$
French Franc	7⅝ - 7⅜	7⅝ - 7⅜	7⅝ - 7⅜	7½ - 7¼	7¼ - 7	6$\frac{13}{16}$ - 6$\frac{9}{16}$
Portuguese Esc.	9⅛ - 8$\frac{13}{16}$	9⅛ - 8$\frac{15}{16}$	9¾ - 9$\frac{7}{16}$	10⅛ - 9⅞	10$\frac{9}{16}$ - 10⅜	11⅛ - 10$\frac{13}{16}$
Spanish Peseta	9½ - 9⅜	9$\frac{7}{16}$ - 9$\frac{5}{16}$	9½ - 9⅜	9⅝ - 9$\frac{7}{16}$	10¼ - 10⅛	10$\frac{7}{16}$ - 10$\frac{5}{16}$
Sterling	6½ - 6¼	6¼ - 6⅛	6$\frac{13}{32}$ - 6$\frac{9}{32}$	6½ - 6$\frac{7}{16}$	6$\frac{21}{32}$ - 6$\frac{19}{32}$	6$\frac{13}{16}$ - 6$\frac{11}{16}$
Swiss Franc	3$\frac{5}{16}$ - 3$\frac{3}{16}$	3¼ - 3⅛	3¼ - 3⅛	3$\frac{5}{16}$ - 3$\frac{3}{16}$	3⅜ - 3¼	3½ - 3⅜
Can. Dollar	7$\frac{7}{16}$ - 7¼	7$\frac{7}{16}$ - 7¼	7⅜ - 7¼	7⅛ - 7	7 - 6⅞	6⅞ - 6¾
US Dollar	6$\frac{1}{16}$ - 5$\frac{15}{16}$	6$\frac{1}{16}$ - 5$\frac{15}{16}$	6 - 5⅞	5⅞ - 5¾	5¾ - 5⅝	5⅝ - 5½
Italian Lira	10⅛ - 10	10$\frac{11}{16}$ - 10$\frac{9}{16}$	10$\frac{11}{16}$ - 10$\frac{9}{16}$	10$\frac{11}{16}$ - 10$\frac{9}{16}$	10¾ - 10⅝	11 - 10⅞
Yen	1$\frac{5}{16}$ - 1¼	1$\frac{11}{32}$ - 1$\frac{9}{32}$	1$\frac{5}{16}$ - 1¼	1$\frac{3}{16}$ - 1⅛	1⅛ - 1$\frac{1}{16}$	1$\frac{1}{16}$ - 1
Asian $Sing	¼ - ⅛	¼ - ⅛	½ - ⅜	1 - ⅞	1½ - 1⅜	2¼ - 2⅛

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate (FFr5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	92.60	92.64	+0.18	92.68	92.58	17,454	36,405
Sep	93.45	93.53	+0.18	93.62	93.45	24,698	58,305
Dec	93.83	93.86	+0.12	93.93	93.80	7,614	32,202

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.61	95.59	-0.02	95.61	95.59	3915	106822
Sep	95.75	95.71	-0.03	95.76	95.71	7420	141280
Dec	95.65	95.63	-0.01	95.65	95.61	7143	134668
Mar	95.54	95.54	+0.01	95.55	95.50	6659	111314

■ THREE MONTH EUROLIRA INT.RATE FUTURES (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	89.44	89.48	+0.09	89.49	89.42	3701	30398
Sep	89.41	89.48	+0.07	89.48	89.41	3044	32314
Dec	89.46	89.46	+0.05	89.47	89.44	849	18504
Mar	89.45	89.46	+0.05	89.46	89.44	96	9317

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.74	96.74	-0.02	96.75	96.68	429	16368
Sep	96.76	96.74	-0.05	96.78	96.72	574	18515
Dec	96.60	96.62	-0.02	96.65	96.60	332	7762
Mar	96.51	96.54	+0.01	96.54	96.51	5	3875

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.83	93.84	-	93.85	93.83	128	6533
Sep	93.89	93.90	+0.01	93.91	93.88	206	6604
Dec	93.84	93.92	+0.05	93.90	93.84	19	3508
Mar	93.73	93.81	+0.05	93.80	93.73	3	1761

* LIFFE futures also traded on APT

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100% (May 26)

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.17	94.20	+0.02	94.22	94.17	131,472	340,407
Sep	94.54	94.58	+0.06	94.59	94.53	216,383	377,385
Dec	94.56	94.62	+0.07	94.65	94.57	303,185	335,325

■ US TREASURY BILL FUTURES (IMM) $1m per 100% (May 26)

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.64	94.65	+0.02	94.67	94.64	1,254	8,746
Sep	94.96	94.97	+0.05	94.98	94.95	4,136	11,617
Dec	95.04	95.05	+0.08	95.07	95.03	1,279	11,736

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jun	PUTS Jul	PUTS Aug	PUTS Sep
9550	0.12	0.26	0.30	0.33	0.03	0.05	0.09	0.12
9575	0.02	0.11	0.15	0.18	0.18	0.15	0.19	0.22
9600	0	0.03	0.06	0.09	0.41	0.32	0.35	0.38

Est. vol. total, Calls 1894 Puts 1990. Previous day's open int., Calls 245448 Puts 324604

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9650	0.24	0.31	0.32	0	0.07	0.20
9675	0.05	0.15	0.18	0.07	0.16	0.31
9700	0	0.06	0.09	0.26	0.32	0.47

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 1310 Puts 1035

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
8925	0.33	0.69	0.81	0.10	0.46	0.60
8950	0.17	0.54	0.67	0.19	0.56	0.71
8975	0.08	0.41	0.55	0.35	0.68	0.84

Est. vol. total, Calls 200 Puts 0. Previous day's open int., Calls 7291 Puts 4820

LONDON MONEY RATES

Jun 5	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6⅞ - 4½	6⅜ - 6⅛	6⅜ - 6¼	6$\frac{9}{16}$ - 6$\frac{7}{16}$	6¾ - 6⅝	6$\frac{13}{16}$ - 6$\frac{11}{16}$
Sterling CDs	-	-	6$\frac{13}{32}$ - 6$\frac{9}{32}$	6$\frac{15}{32}$ - 6$\frac{13}{32}$	6⅝ - 6$\frac{9}{16}$	6$\frac{27}{32}$ - 6$\frac{23}{32}$
Treasury Bills	-	-	6⅛ - 6$\frac{1}{16}$	6$\frac{5}{16}$ - 6$\frac{3}{16}$	-	-
Bank Bills	-	-	6¼ - 6⅛	6⅜ - 6$\frac{5}{16}$	6$\frac{19}{32}$ - 6$\frac{17}{32}$	-
Local authority deps.	5$\frac{15}{16}$ - 5$\frac{13}{16}$	5$\frac{15}{16}$ - 5$\frac{13}{16}$	6$\frac{5}{16}$ - 6$\frac{3}{16}$	6$\frac{9}{16}$ - 6$\frac{7}{16}$	6¾ - 6⅝	7$\frac{1}{16}$ - 6$\frac{15}{16}$
Discount Market deps	6¼ - 4¾	6$\frac{3}{16}$ - 6$\frac{1}{16}$	-	-	-	-

UK clearing bank base lending rate 6¾ per cent from February 2, 1995

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	3	5¼	5¾	6	6¼

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount 6.1801pc. ECGD fixed rate Stlg. Export Finance. Make up day May 31, 1995. Agreed rate for period June 26, 1995 to July 25, 1995, Schemes II & III 8.03pc. Reference rate for period Apr 29, 1995 to May 31, 1995, Schemes IV & V 6.788pc. Finance House Base Rate 7pc from June 1, 1995

LONDON SHARE SERVICE

BANKS, MERCHANT

	Notes	Price	+ or -	1995 high	1995 low	Mkt Cap£m	Yld Gr's	P/E
Barings 8pc Cm 2nd Pf		50½	—	98	50¼	6.31	19.8	–
9¼pc Non-Cum Pf		4¾	—	118½	3	1.90	–	–
Cater Allen	‡†	524	—	524	418	170.8	6.8	10.8
Close Bros	‡†	279	—	280	219	285.6	3.6	12.8
Gerrard & Nat	‡†□	461	—	490	395	224.5	6.5	13.3
Hambros	□	212	-3	253	195	374.4	8.8	13.0
7½pc Cv Pf		102	-1	112	94	131.4	9.2	–
Joseph (L)	‡†	383	—	406	363	19.2	6.1	10.6
King & Shaxson	‡	120	+2	124	85	20.9	9.4	11.9
Kleinwort Benson	‡v□	673	-7	700	529	905.2	4.0	12.0
Rea Bros	‡v	51	—	67	51	24.8	2.5	18.7
Schroders	‡lnv□	1137	+2	*1145	906¼	1,716	1.5	16.2
N/V	lnv	935	—	*976¼	823¼	411.4	1.8	13.3
Singer & Fried	‡v□	93xd	-2	98	81	189.7	4.7	9.5
Union	‡v□	98	—	105	70	28.1	3.8	–
Warburg (SG)	‡qv□	775xd	+7	863	655	1,712	3.5	–
Wintrust	‡qv	238	+13	238	200	20.2	6.2	Φ

BANKS, RETAIL

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

BUILDING MATS. & MERCHANTS - Cont.

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

INVESTMENT COMPANIES - Cont.

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL EXPLORATION & PRODUCTION - Cont.

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Cont.

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ф Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ☨ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. v P/e ratios are calculated under new ACT guidelines. z Dividend yield includes a special payment. F Yield based on prospectus or other official estimates for 1994-95. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1995. K Yield based on prospectus or other official estimates for 1994. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1995-96. R Forecast annualised yield, p/e based on prospectus or other official estimates. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

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Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Money Funds
Pembroke Hall, Pembroke, Bermuda
UK: Prof Advisers 0800 414181 Jersey: 01534 71696
Private Clients 0800 414161 00 352 250404230
From O'seas (44) 1732 777377 Hong Kong (852) 848 1000

	Init Chrg	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
A$ Accum			A$17.808		+0.003	6.50
A$ Dist			A$15.324		+0.003	6.50
ASch Accum			Sch240.88		+0.03	3.50
ASch Dist			Sch202.37		+0.02	3.50
BFr Accum			BFr343.53		+0.06	3.90
BFr Dist			BFr507.38		+0.05	3.90
C$ Accum			C$17.812		+0.003	6.60
C$ Dist			C$15.337		+0.003	6.60
DKr Accum			DKr109.23		+0.07	5.50
DKr Dist			DKr101.78		+0.01	5.50
DM Accum			DM37.003		+0.004	3.40
DM Dist			DM30.372		+0.003	3.40
DFl Accum			DFl30.706		+0.002	3.30
DFl Dist			DFl25.312		+0.003	3.30
ECU Accum			Ecu12.790		+0.002	5.40
ECU Dist			Ecu10.173		+0.002	5.40
FM Accum			FM109.15		+0.01	4.00
FM Dist			FM101.27		+0.01	4.00
FFr Accum			FFr63.861		+0.011	6.30
FFr Dist			FFr50.941		+0.009	6.30
HK$ Accum			HK$113.35		+0.02	6.10
HK$ Dist			HK$101.97		+0.02	6.10
I£ Accum			I£11.566		+0.002	5.30
I£ Dist			I£10.159		+0.001	5.30
Lire Accum			L20971		+6	10.00
Lire Dist			L15440		+4	10.00
NZ$ Accum			NZ$35.945		+0.007	7.80
NZ$ Dist			NZ$30.762		+0.006	7.80
NKr Accum			NKr107.01		+0.01	4.70
NKr Dist			NKr101.37		+0.01	4.70
Pes Accum			Pes335.1		+0.7	9.00
Pes Dist			Pes275.2		+0.6	9.00
S$ Accum			S$25.570		+0.001	1.00
S$ Dist			S$25.087		+0.001	1.00
[illegible]			[illegible]		[illegible]	[illegible]

Schroder Investment Mngmt (Guernsey) Ltd
PO Box 250, St Peter Port, Guernsey 01481 710651

	Init Chrg	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
European Bd $	3		$11.7896	12.2032	—	7.55
Approx Sng Equiv	3		£7.4213	7.6804	—	7.56

GUERNSEY (REGULATED)(**)

	Selling Price	Buying Price	+ or -	Yield Gross
ANZ Mngmt Co (Guernsey) Ltd				
Emerging Mkts Unit Fd Pl	$13.17	13.50	—	–
Apollo Investment Management Ltd				
Japan	$9.873	10.488	—	–
Tiger	$10.498	11.141	—	–
Arab Bank Fund Managers (Guernsey) Ltd				
AB International Fund Ltd				
Managed Currency	$11.24	11.28	+0.04	–
International Bond	$11.33	11.37	+0.08	–
Bachmann Global Investment Fund Ltd				
Cash, Gilt & Sttg Fxd Int	£18.12	18.18	—	–
US Dollar Intl Bond & Ccy	$152.81	158.30	—	–
Sterling Intl Bond & Ccy	£102.50	104.75	—	–
Global Equity	$9.29	9.77	—	–
Intl Equity Index	$105.53	110.02	—	–

For Bellevest see Other Offshore Funds

	Selling Price	Buying Price	+ or -	Yield Gross
CIBC Fund Managers (Guernsey) Ltd				
PCF Sterling Bond ♦	£11.16	11.35	—	8.47
PCF US Dollar Bond ♦	$15.88	16.15	—	7.77
PCF Canadian Dollar Bond ♦	C$22.22	22.61	—	10.10
PCF Euro Bond ♦	$18.93	19.27	—	–
PCF Euro Equity ♦	$19.25	19.84	—	–
PCF Balanced ♦	$16.13	16.47	—	–
PCF Far East ♦	$16.14	17.09	—	–
Claridén Investment Management (Guernsey) Ltd				
Claridén India Fund	$91.84		—	–
Dextrust Management (Guernsey) Ltd				
Dextrust Limited	Ecu20.05	20.08	—	–
Global Portfolio Management (Guernsey) Ltd				
Global Conv Bd Dec 29	$11.69	11.70	—	–
Global Emerging Markets	$10.31	10.32	—	–

Guernsey Capital Management Limited

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

FT MANAGED FUNDS SERVICE

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OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

WW Capital Growth Fund

	Selling Price	Buying Price	+ or -	Yield Gross
NAV Apr 28	$858.47		—	-

Wellington Fd Mngrs (Bermuda) Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Intl Growth Fd	$16.37	17.19	+2.65	-

Wells Fargo U.S. IT Fund

	Selling Price	Buying Price	+ or -	Yield Gross
Wells Fargo A Shs (z)	$13.89		—	-
Wells Fargo B Shs (z)	$10.87		—	-

Worldwide Limited

	Selling Price	Buying Price	+ or -	Yield Gross
NAV Mar 31	$88.85		—	-

Xiphias International Investment Fd Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Xiphias Global Growth	$9.92		—	-
Xiphias Inc ECU Acc	Ecu1.2182		—	-
Xiphias Inc ECU Dis	Ecu1.0613		—	-

Yamaichi Capital Management (Guernsey) Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Thai Inv Fund	$20.59		—	-

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars.
Yields % allow for all buying expenses.
Prices of certain older insurance linked plans subject to capital gains tax on sales.
( ) Funds not SIB recognised. The regulatory authorities for these funds are:
Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland
Isle of Man - Financial Supervision Commission
Jersey - Financial Services Department
Luxembourg - Institut Monétaire Luxembourgeois.
Initial charge - Charge made on sale of units.
Selling price - Bid or redemption price.
Buying price - Offer or issue price.
Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:
(✦) - 0001 to 1100 hours
(♦) - 1101 to 1400 hours
(▲) - 1401 to 1700 hours
(●) - 1701 to midnight
E - Exit charge on sale of units.
C - Manager's periodic charge deducted from capital.
H - Historic pricing F - Forward pricing
k - Distribution free of UK taxes.
p - Periodic premium insurance plans.
s - Single premium insurance.
u - Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).
x - Offered price includes all expenses except agent's commission.
z - Previous day's price.
§§ - Guernsey gross.
♦ - Yield before Jersey tax.
† - Ex-subdivision.
¢ - Only available to charitable bodies
ɸ - Yield column shows annualised rates of NAV increase.
xd - Ex-dividend.

LONDON STOCK EXCHANGE

MARKET REPORT

Bid speculation drives FT-SE to 15-month high

By Steve Thompson, UK Stock Market Editor

Recent worries about the impact of a possible "hard landing" on Wall Street and fears that the UK economy is rapidly running out of steam were cast aside by the UK equity market. Traders preferred to focus on the potential for a series of big takeover moves and a better outlook for domestic interest rates.

Sustained mainly by another wave of takeover speculation, all the main stock market indices raced up to 1995 highs. The FT-SE 100 Index surged 31.6 to 3,376.5, its best closing level since February 18 last year. The FT-SE Mid 250 Index was overshadowed by the senior FT-SE 100 but nevertheless still managed a 15.6 improvement to 3,690.1, the highest close since last September.

Helping the momentum in London was another strong showing by Wall Street, where the Dow Jones Industrial Average shrugged off an uncertain start and hit a new peak in early trading, helped by a $3.3bn bid for Lotus Development, the computer software company, from IBM.

The only slightly disturbing feature of the day's activity in London was a sluggish performance by UK gilts, which ended marginally lower on balance, ignoring renewed strength in US Treasury bonds.

Dealers said there had been little or no downside pressure on sterling ahead of tomorrow's meeting between Mr Kenneth Clarke, the chancellor of the exchequer, and Mr Eddie George, governor of the Bank of England, to discuss monetary policy.

The closure of virtually all the leading European bourses, Frankfurt and Paris included, for the Whitsun holiday had a dampening effect on activity in London, where turnover totalled a low 421.5m shares. Non-Footsie stocks accounted for 59 per cent of the total. Customer business on Friday was worth £1.36bn.

"The market bulls were tested last Friday and came through with flying colours," said the head trader at one UK securities house. "The dangers of a rate rise on Wednesday are moderating and both London and Wall Street have regained their composure; it would not surprise me to see 3,400 on the FT-SE 100 in the very short term," he added.

The takeover speculation that has been one of the driving forces this year was very much in evidence yesterday. "Any one of a dozen potential takeover stories could burst on the scene at any minute," noted one marketmaker.

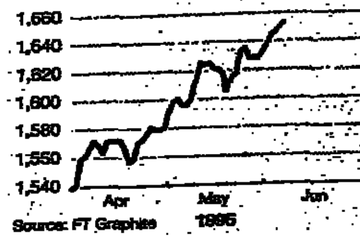
Zeneca, the pharmaceuticals group demerged from ICI two years ago, was the keenest takeover bid story in the marketplace yesterday.

Other rumoured corporate deals said to be bubbling included Thorn EMI, Kleinwort Benson and Fisons/Medeva.

Electrocomponent issues outpaced the rest of the FT-SE Mid 250 constituents after posting excellent preliminary figures. *Anglian Water's* move to gain shareholder approval to buy back 10 per cent of its shares saw the stock price race ahead.

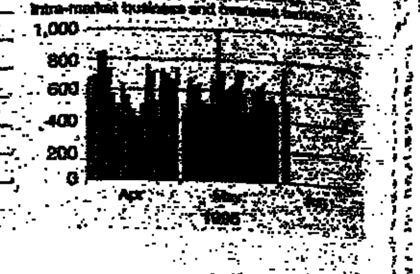
Silk Industries, which manufactures silk scarves and ties for leading retailers, made an impressive market debut, the shares, placed at 125p, quickly gaining ground to finish at 135p.

FT-SE-A All-Share Index



Source: FT Graphics

Equity shares traded



Indices and ratios

FT-SE 100	3376.5	+31.6
FT-SE Mid 250	3690.1	+15.6
FT-SE-A 350	1676.3	+13.8
FT-SE-A All-Share	1656.47	+0.8%
FT-SE-A All-Share yield	3.91	(3.94)
FT Ordinary Index	2553.7	+24.6
FT-SE-A Non Fins p/e	16.90	(16.79)
FT-SE 100 Fut Jun	3381.0	+30.0
10 yr Gilt yield	7.76	(7.78)
Long gilt/equity yld ratio:	2.02	(2.01)

Best performing sectors

1 Banks, Retail .... +2.1
2 Pharmaceuticals .... +1.5
3 Distributors .... +1.5
4 Retailers, Food .... +1.4
5 Tobacco .... +1.0

Worst performing sectors

1 Other Services & Bsns .... -0.7
2 Household Goods .... -0.6
3 Oil, Integrated .... -0.4
4 Mineral Extraction .... -0.2
5 Banks, Merchant 0.0

Warburg cautious on oils

Leading oil issues failed to benefit from the latest surge in the Footsie as one leading securities house took the sector off the buy list.

S.G. Warburg was telling clients that the scintillating rise in earnings growth seen by Shell Transport and BP over the past two years is unlikely to be repeated for some time.

Earnings growth, fuelled by *stringent cost cutting, soaring* chemicals prices and rising crude oil costs, has been around 35 per cent per annum. Next year it could slip to as low as 5 to 7 per cent a year, analysts believe.

The enthusiasm of the house oils team has been cooling for the past few days. Yesterday it formally changed its stance on the sector from add to hold. BP closed a penny lower at 444½p, after being off 3 earlier, and Shell lost 5 at 777½p.

Zeneca surges

Speculation of corporate activity again encompassed Zeneca, with buying in the derivatives markets fuelling the rumours. The stock was the strongest performer in the Footsie for much of the day and gained 28 at a record 992p.

Earlier talk that Roche, of Switzerland, might launch a bid, or that Zeneca was interested in acquiring Pharmacia, of Sweden, was coupled with suggestions that Zeneca might sell a large chunk of its business. Dealers said it might dispose of its agrochemicals arm for between £2bn to £3bn, thus freeing cash to concentrate on the mainstream pharmaceuticals business.

Panmure Gordon was a strong buyer, citing the strong drug development programme. Analyst Mr Robin Gilbert said: "Zeneca probably has the best drugs pipeline of any company in the world industry at the moment. This is just a good old fashioned growth story."

Also, Monument Securities, a leading derivatives specialist, was said to have bought a large amount of Zeneca call *options expiring at 1050p* each in July. The trade is seen as a geared play on Zeneca shares rising further in the short term.

Anglian pleases

News that Anglian Water is to become the first water company to launch a share buyback scheme sent the stock sharply ahead.

The shares gained 12 at 543p after Anglian announced that it will be seeking powers from shareholders at its annual *meeting in July to buy up to 10* per cent of its own stock. The group also reported bumper full-year profits and a sharp increase in the dividend, both well above market expectations, which helped to boost sentiment further.

Mr Kevin Lapwood at Smith New Court cheered both the figures and news of the share buy-back and said: "Anglian Water could return more than £200m to shareholders within the next two years."

Elsewhere among water stocks, Welsh Water, with results on Friday, rose 9 to 656p after *stating that it had raised its stake in ScVK*, the Czech Republic's largest water and sewage treatment company, from 15.6 per cent to 35.6 per cent. Thames, which reports today, put on 2 at 508p, while Yorkshire finished 6 up at 591p ahead of preliminary figures due tomorrow.

Bank stocks continued their strong performance, reflecting the growing belief that the top of the interest rate cycle has been reached. At the start of business yesterday, the sector had outperformed the broad market by nearly 9 per cent in *the past four months*. Barclays ended 19½ up at 714½p, while National Westminster climbed 17 to 574p, Lloyds 15½ to 670½p and Royal Bank of Scotland – where recent selling by one leading US hedge fund has dried up – 12½ to 420½p.

Severely shaken out at the end of last week on negative retail news from North America, building materials leader *Caradon rebounded strongly to* head the Footsie performance charts. Sentiment turned sour on Friday following a profits warning from Payless, the big US drug store and DIY business. But a number of securities houses have recently become more positive about 1996 retail spending, both in the UK and the US.

Caradon added 10 at 280p in 1.2m turnover and Wolseley put on a penny at 352p. Spring Ram closed 1¼ off at 39½p after a securities house was said to have issued a sell note.

Cautious comments made during an analysts' trip to the US hit Arjo Wiggins Appleton and the shares fell 10½ to 253p.

Analysts heard that Arjo's US arm was finding it difficult to pass on sharp rises in paper pulp prices, because the fax and carbonless paper market in which it operates is mature and margins are being squeezed.

Some funds were being switched into Rexam, formerly Bowater, which is seen as the pick of the sector. The shares advanced 12 to hit a 14-month high of 502p.

Airports group BAA moved lower on the announcement of strong results and a better than expected dividend, with the market appearing to take advantage of the recent strong run for the shares to switch into British Airways. BA added 1½ at 409¾, helped by strong May traffic figures, while BAA shed 3 to 484p.

Talk that Eurotunnel would miss out on cross-channel coach business this summer, because of safety licence delays, edged the stock down a penny to 183p amid heavy turnover in Paris, where the shares traded 4.3m.

British Steel, which topped the Footsie activity charts on Friday, was again heavily traded, racking up turnover of 9.6m as sentiment continued to see-saw. Dealers said yesterday's two-day pull was mostly the result of shift in stance at BZW which moved from buy to *hold. The shares, down 2 at* one stage, closed marginally higher at 173½p.

Military computer systems group Radstone Technology fell 21 to 106p following a profits warning. The company, floated last year at 125p, announced strong profits and a bumper dividend but stressed that the current year had run into problems.

Components distributor Electrocomponents powered ahead by 32 to 619p in the wake of strong results and an 18 per cent dividend increase.

There was strong demand for Argyll Group ahead of an analysts trip on Friday and the shares appreciated 11 to 342p, after trade of 3.2m.

The strong market trend helped Thorn EMI recover from an early retreat to end 4 ahead at 1256p. The weakness at the beginning of the session, followed weekend press reports suggesting the company may be interested in buying Reed International's books division. UBS also advised investors to take profits in Thorn. A Reed International presentation is being held at S.G. Warburg tomorrow. Shares in the group firmed 7 to 678p.

A denial from Laura Ashley, the clothing and furnishings group, that it had received a bid approach, failed to quash takeover speculation in the market. The talk followed weekend press reports that suggested a US group had made an approach. But one market analyst said yesterday, "they may be denying it but I think there is no smoke without fire."

Strong demand for leisure company Granada Group, ahead of Wednesday's interim figures, saw the shares rise 8 to 602p, an all-time high.

MARKET REPORTERS:
Peter John,
Joel Kibazo,
Jeffrey Brown.

FINANCIAL TIMES EQUITY INDICES

	Jun 5	Jun 2	Jun 1	May 31	May 30	Yr ago	*High	*Low
Ordinary Share	2553.7	2529.1	2522.8	2507.7	2506.2	2387.8	2563.7	2238.3
Ord. div. yield	4.21	4.25	4.26	4.26	4.26	4.21	4.73	4.20
P/E ratio net	15.91	15.77	15.73	15.88	15.67	19.06	21.33	15.73
P/E ratio nil	15.67	15.53	15.49	15.64	15.63	19.72	22.21	15.49

*For 1995. Ordinary Share index since compilation: high 2713.6 2/02/94; low 49.4 26/6/40
FT Ordinary Share index base date 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2524.6	2531.4	2531.9	2535.7	2541.3	2543.9	2546.4	2548.2	2549.1	2553.7	2523.7

	Jun 5	Jun 2	Jun 1	May 31	May 30	Yr ago
SEAQ bargains	23,458	23,456	24,383	22,031	20,303	22,112
Equity turnover (£m)†	-	1361.5	1586.8	1198.3	952.7	764.1
Equity bargains†	-	34,921	34,115	32,299	30,872	24,102
Shares traded (ml)†	-	541.3	775.7	536.2	575.7	341.0

†Excluding intra-market business and overseas turnover.

London market data

Rises and falls*		1995 Highs and lows		LIFFE Equity options	
Total Rises	745	Total Highs	258	Total contracts	28,477
Total Falls	499	Total Lows	33	Calls	15,454
Same	1,619			Puts	13,023

June 5 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3350.0	3381.0	+30.0	3389.0	3346.0	10383	62806
Sep	3370.0	3404.5	+30.5	3411.0	3370.0	1491	16403
Dec		3430.0	+30.0			0	382

FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		3700.0	+5.0			0	[illegible]
Sep		3726.0	+6.0			0	[illegible]

FT-SE 100 INDEX OPTION (LIFFE) (*3372) £10 per full index point

[illegible]

EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

Calls 1,970 Puts 2,105 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt cap (£m)	1995 High	Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	133.0	733	689	Brit Aero Cap Us	727	+3	-	-	-	-
-	F.P.	143.7	105	100	Dunyat An Div	105		M8.2	-	7.4	-
-	F.P.	29.7	105	100	Do. Monthly Div	105		M5.92	-	7.0	-
-	F.P.	23.2	103	98	Finsbury Worldwide	101		-	-	-	-
190	F.P.	448.4	187	165½	General Cable	177	+2½	-	-	-	-
122	F.P.	24.9	127	122	Gradus Group	126		Ln4.88	2.1	4.8	12.5
80	F.P.	14.5	95	80	Gus Cons	92		-	-	-	20.2
3	F.P.	2.23	3½	3½	Langdons Foods	3½		Hn0.1	2.6	3.6	13.3
-	F.P.	13.0	650	650	Oryx India	650		-	-	-	-
-	F.P.	1.60	250	250	Do. Warrants	250		-	-	-	-
125	F.P.	20.7	141	125	Precoat Int'l	141		R4.2	2.5	3.7	13.5
-	F.P.	83.9	107	103	Schroder Inc Gth	105		-	-	-	-
-	F.P.	4.27	31	26	Do. Warrants	27		-	-	-	-
125	F.P.	16.2	135	128	Silk Industries	135		Ln5.6	2.1	5.2	11.3

FT GOLD MINES INDEX

	Jun 2	% chg on day	Jun 1	May 31	Year ago	Gross div yield %	52 week High	52 week Low
Gold Mines Index (33)	1889.29	-1.1	1909.39	1901.10	1928.73	2.17	2337.98	1637.91
Regional Indices								
Africa (16)	2551.13	+0.9	2529.48	2518.50	2613.20	5.09	3711.87	2428.19
Australasia (6)	2167.03	-1.8	2206.28	2219.08	2607.36	1.80	2951.49	1788.20
North America (11)	1663.24	-1.8	1694.05	1683.24	1629.57	0.82	1911.21	1348.18

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Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92.
Latest prices were unavailable for this edition.

FT - SE Actuaries Share Indices — The UK Series

	Jun 5	Day's chge%	Jun 2	Jun 1	May 31	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3376.5	+0.9	3345.0	3340.6	3319.4	3008.4	4.09	2.00	15.25	70.24	1318.32
FT-SE Mid 250	3690.1	+0.4	3674.5	3674.8	3653.8	3571.4	3.53	1.86	19.04	54.85	1412.50
FT-SE Mid 250 ex Inv Trusts	3697.7	+0.4	3682.8	3683.2	3663.0	3577.0	3.67	1.92	17.70	56.23	1413.88
FT-SE-A 350	1676.3	+0.8	1662.5	1660.9	1650.5	1522.5	3.97	1.97	15.96	32.65	1337.32
FT-SE-A 350 Higher Yield	1700.6	+0.9	1685.3	1681.3	1670.8	1521.0	4.82	1.75	14.84	39.71	1119.70
FT-SE-A 350 Lower Yield	1650.4	+0.7	1638.3	1639.3	1629.2	1485.4	2.96	2.41	17.51	25.18	1105.71
FT-SE SmallCap	1867.32	+0.1	1866.16	1865.85	1860.75	1870.29	3.27	1.62	23.53	28.44	1483.59
FT-SE SmallCap ex Inv Trusts	1844.73	......	1844.40	1844.30	1840.47	1848.33	3.47	1.70	21.24	29.67	1471.93
FT-SE-A ALL-SHARE	1656.47	+0.8	1643.87	1642.33	1632.56	1515.38	3.91	1.95	16.36	31.72	1343.44

FT-SE Actuaries All-Share

	Jun 5	Day's chge%	Jun 2	Jun 1	May 31	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	2875.35	-0.2	2881.30	2878.21	2853.00	2594.92	3.83	2.07	16.61	61.64	1187.60
12 Extractive Industries(7)	3839.33	+0.6	3816.35	3774.09	3737.10	3731.54	3.67	2.08	16.39	91.94	1087.19
15 Oil, Integrated(3)	2871.45	-0.4	2883.56	2884.58	2858.55	2548.10	3.75	2.16	15.41	61.83	1213.10
16 Oil Exploration & Prod(14)	2063.29	+0.2	2058.59	2069.84	2061.39	1878.48	2.40	0.67	78.23	31.57	1213.91
20 GEN INDUSTRIALS(278)	1980.26	+0.6	1968.60	1972.76	1962.59	1987.24	3.98	1.71	18.34	37.49	1039.40
21 Building & Construction(38)	1005.37	+0.2	1003.66	1005.95	1002.12	1203.37	3.98	1.86	16.99	20.64	811.07
22 Building Matls & Merchs(31)	1815.03	+0.8	1800.73	1825.25	1825.38	1914.30	4.08	1.94	15.80	37.17	882.31
23 Chemicals(22)	2437.46	+0.4	2426.56	2438.19	2435.20	2431.28	3.89	1.54	20.81	52.12	1114.88
24 Diversified Industrials(18)	1894.75	+1.0	1876.91	1883.79	1870.84	2007.84	5.10	1.59	15.46	50.64	1009.06
25 Electronic & Elect Equip(36)	2075.14	+0.5	2065.83	2055.41	2040.87	2010.64	3.51	1.94	18.37	15.42	1033.55
26 Engineering(72)	1992.72	+0.5	1982.26	1977.61	1965.58	1840.99	3.15	1.84	21.59	27.18	1166.21
27 Engineering, Vehicles(13)	2338.53	+0.6	2323.84	2307.39	2290.92	2257.81	3.92	0.54	58.62	48.54	1170.70
28 Paper, Pckg & Printing(27)	2996.99	+0.1	2995.39	3004.24	2977.33	2742.76	3.18	2.29	17.12	42.42	1204.87
29 Textiles & Apparel(21)	1693.77	+0.2	1689.69	1683.55	1674.77	1721.88	4.17	1.60	18.74	38.87	994.15
30 CONSUMER GOODS(93)	3137.24	+1.0	3105.42	3104.98	3092.54	2613.02	4.17	1.81	16.53	69.66	1116.64
31 Breweries(18)	2415.04	+0.6	2401.78	2399.89	2389.91	2176.43	4.11	2.03	14.99	44.82	1121.88
32 Spirits, Wines & Ciders(10)	2783.71	+0.7	2763.68	2758.11	2745.96	2857.97	4.25	1.86	15.81	77.23	968.59
33 Food Producers(24)	2503.64	+0.9	2480.71	2478.04	2470.70	2182.07	4.06	1.97	15.63	55.99	1090.48
34 Household Goods(10)	2608.92	-0.6	2624.92	2631.80	2596.59	2451.25	3.53	0.98	36.27	54.80	966.20
36 Health Care(17)	1767.56	+0.7	1754.62	1761.48	1748.38	1698.56	2.86	2.36	18.53	24.09	1047.14
37 Pharmaceuticals(12)	3888.42	+1.5	3830.68	3831.80	3826.92	2699.51	3.99	1.62	19.36	69.31	1271.50
38 Tobacco(2)	4239.92	+1.0	4196.30	4203.38	4160.27	3590.53	5.35	1.90	12.29	131.29	1003.49
40 SERVICES(229)	2060.41	+0.8	2043.74	2043.98	2033.37	1944.63	3.26	2.14	17.97	33.12	1038.85
41 Distributors(32)	2609.49	+1.5	2571.79	2582.08	2574.81	2820.65	3.71	1.97	17.14	46.81	930.30
42 Leisure & Hotels(29)	2343.43	+0.5	2331.84	2333.72	2325.61	2103.67	3.34	1.71	21.86	37.23	1182.71
43 Media(43)	3035.70	+0.8	3011.68	3014.62	2982.24	2977.66	2.60	2.33	20.58	54.49	1077.60
44 Retailers, Food(16)	2066.92	+1.4	2038.69	2036.65	2027.86	1566.60	3.36	2.44	15.24	35.45	1271.01
45 Retailers, General(44)	1688.31	+1.0	1671.39	1671.25	1666.16	1664.04	3.38	2.19	16.85	27.84	934.73
48 Support Services(37)	1637.85	+0.2	1635.16	1629.79	1626.03	1593.41	2.69	2.53	18.40	19.97	1016.36
49 Transport(21)	2288.89	+0.2	2283.76	2284.00	2268.45	2353.36	3.86	1.84	17.57	29.32	916.17
51 Other Services & Business(7)	1242.85	-0.7	1251.59	1255.84	1248.94	1190.33	3.65	1.24	27.50	12.40	1089.56
60 UTILITIES(37)	2392.79	+0.6	2379.18	2382.40	2374.41	2197.40	4.63	1.87	14.45	27.66	961.17
62 Electricity(17)	2262.41	+0.1	2260.07	2261.64	2252.22	2081.04	4.56	2.78	9.86	27.40	971.44
64 Gas Distribution(2)	2045.74	+0.9	2026.79	2017.19	2000.95	1794.74	5.86	0.65	32.72	66.79	993.93
66 Telecommunications(5)	2068.40	+0.7	2053.15	2059.23	2053.34	1964.98	4.10	1.47	20.77	8.38	901.37
68 Water(13)	1956.42	+0.6	1944.53	1952.14	1955.07	1716.77	5.14	2.69	9.04	23.53	1007.31
69 NON-FINANCIALS(661)	1773.40	+0.7	1761.83	1762.91	1754.07	1635.75	3.91	1.83	16.90	32.16	1291.28
70 FINANCIALS(117)	2480.89	+1.3	2448.03	2427.85	2403.43	2149.45	4.28	2.32	12.57	64.12	1019.67
71 Banks, Retail(9)	3355.06	+2.1	3285.75	3249.32	3207.41	2767.29	4.11	2.91	10.46	90.64	1042.90
72 Banks, Merchant(6)	3322.75	.....	3323.49	3263.01	3255.90	2836.36	3.48	1.90	18.89	56.32	1027.39
73 Insurance(26)	1376.92	+0.6	1368.37	1361.29	1352.42	1258.03	5.16	1.84	13.16	43.40	986.96
74 Life Assurance(6)	2724.31	+0.6	2706.85	2694.68	2685.65	2298.19	4.99	1.36	18.39	91.02	1093.12
77 Other Financial(22)	2039.20	+0.3	2033.09	2029.96	2025.59	1796.85	3.81	2.32	14.13	26.68	1117.34
79 Property(46)	1483.03	+0.1	1481.83	1481.44	1462.72	1546.29	4.10	1.24	24.60	25.34	876.05
80 INVESTMENT TRUSTS(133)	2825.66	+0.5	2810.66	2808.88	2785.10	2747.98	2.31	1.01	53.82	29.49	865.41
89 FT-SE-A ALL-SHARE(911)	1656.47	+0.8	1643.87	1642.33	1632.56	1515.38	3.91	1.95	16.36	31.72	1343.44
FT-SE-A Fledgling	1013.24	+0.2	1011.54	1011.28	1009.76	-	2.94	1.21	35.13	14.06	1027.96
FT-SE-A Fledgling ex Inv Trusts	1006.83	+0.2	1005.32	1005.25	1004.35	-	3.10	1.25	32.15	14.44	1021.89

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3338.6	3348.5	3346.8	3352.6	3358.4	3361.8	3366.4	3368.2	3372.7	3376.6	3338.4
FT-SE Mid 250	3675.5	3677.3	3678.7	3679.7	3682.8	3685.1	3686.5	3688.8	3689.2	3690.1	3675.1
FT-SE-A 350	1660.2	1664.2	1663.6	1666.0	1668.6	1670.1	1672.0	1672.9	1674.7	1675.3	1660.1

Time of FT-SE 100 Day's high: 4.30pm Day's low: 8.38am. FT-SE 100 1995 High: 3376.6 (5/6) Low: 2954.2 (23/1).

FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	992.4	992.7	992.9	993.4	995.0	996.6	997.4	997.4	996.0	996.0	992.2	+3.8
Pharmaceuticls	3793.2	3804.8	3807.2	3821.5	3825.2	3834.6	3843.1	3847.9	3847.4	3853.7	3795.9	+57.8
Water	1950.4	1949.4	1949.6	1949.6	1948.8	1949.4	1954.6	1955.6	1953.2	1951.8	1939.2	+12.6
Banks, Retail	3321.0	3341.0	3335.6	3344.4	3357.5	3374.4	3382.8	3381.9	3391.9	3397.9	3327.7	+70.2

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products relating to these indices, is available from FINSTAT, Fitzroy House, 13-17 Epworth Street, London EC2A 4DL. The FT "500" has been renamed FT-SE-A Non-Financials index. The FT-SE 100, the FT-SE Mid 250, FT-SE Actuaries 350 and the FT-SE Actuaries Industry baskets are calculated by the International Stock Exchange of the United Kingdom and Republic of Ireland and the FT-SE Actuaries All-Share Index is compiled by The Financial Times Limited, both in conjunction with the Institute of Actuaries and the Faculty of Actuaries under a standard set of ground rules. Indices are audited by The WM Company.
† Sector P/E ratios greater than 80 are not shown. $ Values are negative.

TRADING VOLUME

Major Stocks Yesterday

[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 Index constituent. All trades are in millions.

WORLD STOCK MARKETS

US INDICES

Dow Jones	Jun 2	Jun 1	May 31	1995 High	1995 Low	Since compilation High	Since compilation Low
Industrials	4444.39	4472.75	4465.14	4472.75 (1/6)	3832.08 (30/1)	4472.75 (1/6/95)	41.22 (2/7/32)
Home Bonds	101.85	101.30	101.19	101.30 (2/6)	93.83 (3/1)	105.77 (18/10/93)	54.99 (1/10/81)
Transport	1630.85	1658.33	1662.99	1696.28 (28/4)	1473.19 (3/1)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	207.75	205.64	206.43	207.75 (2/6)	183.08 (3/1)	323.65 (26/5/85)	10.50 (8/4/32)

DJ Ind. Day's high 4498.27 (4499.72) Low 4408.35 (4421.56) (Theoretical‡)
Day's high 4488.31 (4478.28) Low 4430.90 (4437.47) (Actual‡)

Standard and Poors

	Jun 2	Jun 1	May 31	1995 High	1995 Low	Since compilation High	Since compilation Low
Composite ‡	532.51	533.49	533.40	533.49 (1/6)	459.11 (3/1)	533.49 (1/6/95)	4.40 (1/6/32)
Industrials♥	630.41	633.26	632.83	633.26 (1/6)	548.28 (3/1)	633.26 (1/6/95)	3.62 (21/6/32)
Financial	52.41	51.58	51.44	52.41 (2/6)	41.41 (2/1)	52.41 (2/6/95)	8.64 (1/10/74)
NYSE Comp.	286.53	286.73	286.44	286.73 (1/6)	250.73 (3/1)	286.73 (1/6/95)	4.46 (25/4/42)
Amex Mkt Val	487.84	490.80	492.10	492.10 (31/5)	433.12 (6/1)	492.10 (31/5/95)	29.31 (9/12/72)
NASDAQ Cmp	872.97	868.82	864.58	878.84 (23/5)	743.58 (3/1)	878.84 (23/5/95)	54.87 (31/10/72)

■ RATIOS

	May 26	May 19	May 12	Year ago
Dow Jones Ind. Div. Yield	2.53	2.54	2.47	2.89
	May 31	May 24	May 17	Year ago
S & P Ind. Div. yield	2.19	2.21	2.20	2.48
S & P Ind. P/E ratio	17.72	17.61	16.91	24.06

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Hanson	10,299,800	18½	—
Motorola	5,063,300	60	-1⅛
Chrysler	4,868,600	44¼	-⅛
Ford Motor	4,694,300	30¼	+⅛
Telefonos	4,553,200	30	—
Micron	3,921,500	47¾	+1
Portugal Tel	3,734,400	19¼	+⅝
Merck	3,446,700	47⅞	+½
Digital Equip	3,131,200	44⅞	+
Amer T & T	2,860,000	51	+¼

■ TRADING ACTIVITY

● Volume (million)

	Jun 2	Jun 1	May 31
New York SE	368.970	348.187	358.180
Amex	19.592	20.818	20.878
NASDAQ	363.395	366.324	392.081
NYSE			
Issues Traded	3,006	2,988	2,989
Rises	1,469	1,228	1,578
Falls	907	926	682
Unchanged	630	829	729
New Highs	288	165	167
New Lows	12	11	14

	Open	Latest	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Jun	531.95	532.80	+0.85	533.10	531.65	92,768	173,690
Sep	537.20	537.25	+0.70	537.50	536.80	12,489	53,916
■ Nikkei 225							
Jun	15920.0	15950.0	+20.00	15960.0	15770.0	19,547	90,440
Sep	15960.0	16020.0	+50.00	16020.0	15830.0	19,662	75,951

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ¶ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Monday, June 5, 1995.

	Stocks Traded	Closing Prices	Change on day
Maruyama Mfg	12.9m	684	+100
Tamura Elec Wks	7.8m	1,090	+40
Fudo Const	5.1m	723	+16
Takara Shuzo	4.1m	714	+46
Daido Stl Sheet	3.1m	940	+100
Hitachi	2.8m	835	+5
Nippon Steel	2.4m	309	-4
NKK Corp	2.4m	213	-4
Sakura Bank	2.1m	1,020	-10
Japan Mtl & Chem	2.0m	474	+50

† Priced in US $.

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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close June 5

1995 High	Low	Stock	Div	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15½	12⅛	AAR	0.48	3.2	25	132	15¼	15	15	-⅛
24	17	ALPharmaA	0.18	1.0	140	179	18⅝	18	18¼	-¼
43⅜	35	AMP	0.92	2.2	22	1959	42¾	42½	42⅝	
70	53⅜	AMR			22	3176	68½	67⅜	68	+¼
47⅞	41⅞	ASA	1.71	3.9	29	658	44⅛	43⅝	44	+⅜
40⅞	30¾	AbbtL	0.84	2.1	20	20449	40⅛	38⅝	39⅛	-½
17¼	12	Abitibi Pr x	0.40	2.4	128	785	16½	16¼	16½	
24⅜	21	ABM Ind	0.60	2.6	13	5	22⅞	22⅞	23	+⅛
16⅝	13½	Acptocein			8	65	14½	14⅜	14⅜	
27½	21⅞	ACE Ltd	0.56	2.2	11	457	25⅜	25	25¼	
9¾	8⅛	ACM Gvt In	0.90	9.6	8	236	9½	9¼	9⅜	
7½	6½	ACM GvOpp	0.66	8.8		129	7⅝	7⅜	7½	+⅛
7½	6¾	ACM Gvt Sp	0.75	10.5		870	7¼	7	7⅛	+⅛
8⅝	7¼	ACM Gvt Se	0.90	10.7		177	8½	8⅜	8⅜	-⅛
9⅜	7⅝	ACM Man	1.09	11.4		498	u9½	9¼	9½	+⅛
28⅛	10¼	AcmeClv	0.48	1.9	13	348	25⅜	24⅛	25⅜	+⅞
28¾	12⅜	Acme Elect			68	323	28⅜	27½	27½	-½
34½	30	Acordia	0.72	2.3	15	29	30⅞	30⅝	30¾	-⅛
11⅜	8⅝	Actava	0.36	3.2	8	1300	11⅛	10⅝	11⅛	+⅜
16¾	10½	Acuson			23	786	11¼	11	11¼	+⅛
17⅝	15⅝	Adams Expr	0.48	2.8	0	104	17½	17⅜	17⅜	
68½	53	Ad Micro				66	66	66	66	
37½	25	AdvMic			9	8922	35¼	34½	34⅝	+½
6⅞	5	Advest Grp	0.16	2.4	34	131	6⅝	6¼	6⅝	+¼
21¾	16½	Advo Inc	0.10	0.5	17	58	u21¾	21⅜	21¾	
81⅝	62	Aegon	2.57	3.1	16	38	u82½	81⅜	82½	+⅞

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

4 pm close June 5

NYSE COMPOSITE PRICES

Continued from previous page

1995 High	Low	Stock	Div.	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Chge Prev. Close
[illegible]										
42½	34⅛	York Int	0.16	0.4	16	1202	42¼	41½	42⅛	+¾
4⅝	3¼	Zapata	0.14	4.1	6	226	3⅝	3⅜	3⅜	-⅛
12⅛	6⅞	ZnthEl			13	1832	7⅞	7⅜	7¾	+⅛
22¾	19⅜	Zenith Nat	1.00	4.6	11	56	21⅞	21⅝	21⅞	+¼
6⅞	6⅛	Zenix Inc	0.76	11.0		81	u6⅞	6⅝	6⅞	+⅛
14⅝	12⅝	Zero	0.44	3.1	15	172	u14⅝	14¼	14⅜	
20⅞	16⅞	Zurn Ind	0.88	4.4	26	173	20¼	20	20⅛	-⅛
11¼	10¼	Zweig Fund	1.04	9.8		385	10¾	10½	10⅝	
8¾	7⅞	Zweig Tot	0.84	9.9		833	u8¾	8½	8½	

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1995. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

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AMEX COMPOSITE PRICES

4 pm close June 5

Stock	Div.	P/ E	Sls 100s	High	Low	Close	Chng
[illegible]							
Cambrx A	0.01	4	500	6⅞	6¾	5⅞	
Chambers		12	8	6	5⅞	5⅞	-⅛
CircPh	0.04	31	591	29⅞	29¼	29¼	-⅛
Cabl FdA	0.01		185	5⅛	5⅛	5⅛	
Coginco	0.30	9	19	17⅝	17⅝	17⅝	-⅛
Giant FdA	0.74	17	888	28⅝	28¼	28½	+⅛
Glatfltr	0.70	7	582	18⅞	18⅞	18⅞	
Goldfield		9	74	⅝	⅝	⅝	+1/16
Greenman		10	136	7⅛	6⅞	6⅞	-⅛
Gulf Cda	0.34	3	6019	3⅛	3⅛	3⅛	
Nat Pint		5	214	2⅛	1⅞	2	
NY TmA	0.56	10	619	23⅛	22½	22¾	
NuaacE		17	42	5	d4⅞	5	
ViacomB			28850	45⅛	43⅝	44⅛	+¼
WIRET	1.12	18	132	12⅛	11⅞	12	
Xytronix		2	13	1½	1⅜	1½	+⅛

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NASDAQ NATIONAL MARKET

4 pm close June 5

Stock	Div.	P/ E	Sls 100s	High	Low	Last	Chng
ABS Inds	0.20	10	11	11¾	11¾	11¾	
ACC Corp	0.12	7	2065	14¼	13¾	14¼	
Acclaim E		15	6232	17½	16½	16 13/16	+3/16
Acme Mtls		6	31	16⅜	16	16⅛	+⅛
Acxiom Cp		35	114	u19½	19	19¼	-¼
Adaptech		18	11289	32¼	30¼	31⅝	+⅜
ADC Tele		41	1360	30½	29¾	29¾	-⅜
Addington		27	301	14⅛	13¾	14	
AdiaADR	0.16	11	367	25⅛	24½	25⅛	+⅜
Adobe Sys	0.20	115	18338	55	52¾	54½	+2½
Advance C		11	248	15	14⅝	14⅞	+⅛
Adv Logic		112	94	5⅞	5⅝	5⅝	-⅛
Adv Polym		8	167	5	4⅝	4 13/16	+3/16
AdvTchLab		10	102	16¼	15½	16	+¼
Advanta	0.27	14	983	u40¾	40	40¾	+⅝
AgnicoEa	0.10	45	3	u12⅞	12¾	12⅝	-¼
AirExpr	0.16	16	1014	23¾	23	23⅜	+⅜
Akzo ADR	1.63	16	63	61¼	60⅞	61⅛	+⅛
AlexBld	0.88	16	475	24¼	23¾	23⅞	+⅛
Allegh &W		19	2100	11⅞	11⅞	11⅞	
Allen Org	0.52	12	2100	41½	41½	41½	
Allen Ph		4	178	6½	6¼	6½	
AlldCapII	1.06	14	10	u16	15½	16	+¼
Alld Cap	0.80	10	275	12	11¾	11 15/16	+1/16
[illegible]							

Stock	Div.	P/ E	Sls 100s	High	Low	Last	Chng
Delchamps	0.44	[illegible]					
Dell Comp		[illegible]					
Dntsply	0.30	[illegible]					
Dep Gty	1.20	[illegible]					
Devcon	0.20	[illegible]					
DH Tech		[illegible]					
Digi Intl		[illegible]					
Dig Micro		[illegible]					
Dig Sound		[illegible]					
Dig Syst		[illegible]					
Dionex Cp		[illegible]					
Dixie Ym	0.20	[illegible]					
DNA Plant	2.25	[illegible]					
Dollar Gn	0.20	[illegible]					
Dorch Htn	0.68	[illegible]					
DrecoEngy		[illegible]					
DressBarn		[illegible]					
Drey GD	0.24	[illegible]					
Drug Empo	0.08	[illegible]					
DS Bancor	1.09	[illegible]					
Durkon	0.46	[illegible]					
Dynatech		[illegible]					
[illegible]							

AMERICA

IBM bid to buy Lotus takes Nasdaq to peak

Wall Street

The Nasdaq composite climbed past its previous record close in early trading yesterday, boosted by news that IBM, which trades on the New York Stock Exchange, had made a $60 a share bid to buy the Nasdaq traded Lotus Development, *writes Lisa Bransten in New York.*

At 1 pm the Nasdaq composite, which is weighted towards the high-tech sector, was 8.58 higher at 881.55, surpassing its previous record of 879.64 set on May 23. Shortly after that record was set, the index tumbled, leading many to question whether sharp price increases posted by technology companies could continue. Yesterday, the Pacific Stock Exchange index of technology shares gained 1.5 per cent.

Lotus Development surged nearly 87 per cent or $28¾ at $60¾ on the news. IBM shares, however, were down $1½ at $92⅝ by early afternoon.

Other major indices were also higher at 1 pm. The Dow Jones Industrial Average was up 24.20 to 4,468.59. The Standard & Poor's 500 rose 1.65 at 534.16, and the American Stock Exchange composite gained 1.05 at 488.89. NYSE volume was 177m shares.

The stock market derived some support from bonds, which continued to gain ground on the heels of Friday's sharp rally.

Strength in cyclicals helped the Dow, which is heavy in cyclical companies, to outperform other indices. The Morgan Stanley index of cyclical shares climbed 0.9 per cent, while the counterpart index of consumer shares rose just 0.06 per cent. Especially strong companies in the cyclical index were Aluminum Company of America, up $1 at $46, CSX, which climbed $1¼ at $73⅞ and Hewlett-Packard, $1½ higher at $70⅞.

Boeing jumped 4.9 per cent or $2¾ at $61⅞ on reports that the airplane manufacturer had won at least two-thirds of a $8bn order from the Saudi Arabian airline, Saudia.

J.P. Morgan rose 1.7 per cent or $1¼ at $73⅞ after an analyst at Bear Stearns upgraded the rating on the US commercial bank.

Other stocks in the Dow that posted strong gains yesterday included: Merck, up $2 at $49½, United Technologies, which rose $1¾ at $76⅞ and Sears, which was $⅞ higher at $56⅞.

Kmart gained nearly 8 per cent or $1 at $13⅝ on news that the retailer had completed its two-month search for a new chief executive.

Canada

Toronto saw Seagram's share price crumble from an early C$42⅞, up C$⅝, to C$40⅞, down C$1⅛, at midsession as the company completed the acquisition of MCA but refused to discuss individual roles as candidates to manage the entertainment group. Before the weekend, the Hollywood agent and powerbroker Mr Michael Ovitz had been strongly fancied for the role.

The TSE 300 composite index rode the resulting weakness in the consumer products sector with a rise of 4.70 to 4,454.50.

Latin America

São Paulo rose 1.3 per cent in light midday trade amid optimism about lower house votes this week on government proposals easing the state telecommunications and oil monopolies. The Bovespa index was 532 higher at 40,197 at 1 pm in turnover of R$132.6m ($147m).

Analysts noted that the amendments were likely to win approval because the oilworkers' strike, which ended last week, had swayed public opinion against the monopolies.

MEXICO CITY edged higher in late morning trade after a the start of trading had been delayed by demonstrators protesting at last year's elections in the state of Tabasco. The IPC index was 3.74 higher at 2,037.11, with the market supported by expectations of positive trade and inflation figures later in the week.

EUROPE

Milan reacts to Fiat's margins

Most bourses were closed for the Whit Monday holiday, *writes Our Markets Staff.*

MILAN finished little changed, weighed upon for much of the day by disappointment at Fiat's first-quarter operating margin and lower than expected 1994 dividends, announced after the market closed on Friday. The Comit index edged 0.53 down to 625.66, while the Mibtel index picked up from a low of 9,977 to close 11 higher at 10,062.

Fiat lost L90 at L6,285 as a number of domestic brokerages downgraded the stock.

Imi, the banking group, rose L235 to L10,290 and Ina, the insurer, was L23 higher at L2,285 after the government said that it would allow the use of both public offers for sale and private placements in their privatisations, to ensure stable shareholder structures.

Stet added L48 at L4,650 after the managing director said that the company's performance in the first four months of this year was better than in the same period of 1994.

MADRID enjoyed a firm government bond market, reflecting experience abroad, but this did little for equities, where turnover was around its lows for the year at Pta13.7bn, and the general index rose 0.88 to 298.60.

ISTANBUL jumped 4.2 per cent after Prime Minister Mrs Tansu Çiller's conservatives made a strong showing in local by-elections, the composite index closing 2,023.34 stronger at 50,676.44.

Brokers added that sharply lower May inflation figures, although expected, also helped to encourage buyers since they could be a signal of lower rates in the Treasury's t-bill and bond auctions.

ATHENS was led higher by banking shares following estimates over the weekend of very good banking profits for the first quarter. The general index finished 10.99 or 1.2 per cent ahead at 901.65 in turnover of Dr3.4bn.

Block trades were reported in Papastratos, in 3,600 shares at Dr39,738 each, and in Hellenic Technodomiki, in 30,000 at Dr5,050.

WARSAW rebounded 5.1 per cent after a week of falls, the Wig index gaining 387.8 at 8,065.7, but turnover stayed relatively low with a rise of 5.7 per cent to 45.6m zlotys.

The low turnover showed that many investors were still on the sidelines. Analysts thought that the market could continue to drift until company results are announced in the second half of this month, although a four-point cut in official interest rates a week ago, and subsequent cuts in bank deposit rates, should gradually increase a shift from bank accounts to stocks.

Written and edited by William Cochrane and Michael Morgan

S African gold shares drift lower

Johannesburg finished an uncertain session easier, with concerns about local prospects and a low level of demand capping prices. Gold shares drifted down, in line with the bullion price, while demand for industrials was restrained by continuing political uncertainty.

The overall index finished 1.1 higher at 5,527.9, industrials slipped 6.7 to 6,959.8 and the gold shares index was 21.0 softer at 1,386.8.

Key mining stocks attracted limited interest after recent lethargy, with De Beers collecting R1.25 at R95.50 and Anglos R2.50 at R203.50.

SAB added a marginal 25 cents at R105.75, while Amgold fell R9 to R297.

ASIA PACIFIC

Intervention breaks Seoul downtrend

.. and now there are complaints about government manipulation, writes **John Burton**

Old habits die hard for South Korea's Finance Ministry. *It cannot stop intervening in the stock market,* in spite of its promises about promoting financial liberalisation.

The ministry, traditionally, has intervened when share prices swing too low or too high. The recent market downturn proved no exception.

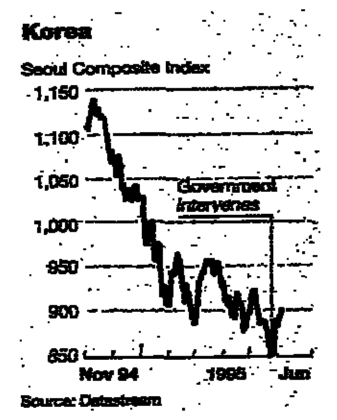
After the general share index reached a new low for the year on May 27, the government announced a package of market-boosting measures.

The government-run stock market stabilisation fund began buying shares, while finance institutions were required to become net buyers in the market. The weight of new share and bond issues scheduled for the second half of 1995 was reduced to restore *liquidity to the market,* which has suffered from the flow of capital to the expansion of booming, export-oriented industries.

The intervention has done the trick, at least temporarily. The general share index rose from 847.09 on May 27 to 890.06 last Friday, adding another percentage point yesterday to close at 899.04 before today's public holiday.

None the less, overseas investors have often complained about government manipulation of share prices. Officials also step in when the index is soaring.

"Foreigners are perplexed. They do not see this even in developing countries. Moreover, the measures usually prove ineffective in the long run," said Mr Richard Samuelson, branch manager of S.G. Warburg in Seoul.



Source: Datastream

Finance Ministry officials defend the practice. "Intervention has guaranteed that foreign investors will not lose too much money and has encouraged them to invest in the Korean market," said Mr Shin Myoung-ho, the assistant minister for international finance.

However, the ministry is also confronting growing domestic criticism. The chairman of the Korea securities dealers association opposed the latest intervention and urged the government to adopt a "hands off" policy.

Even leftist public interest groups have joined the chorus against state meddling in the market. The Citizens' Coalition for Economic Justice accused the government of pushing up share prices ahead of tough local elections later this month, describing it as "sacrificing the stock market on the altar of political expediency".

The intervention is also leading to policy confusion. While the Finance Ministry is urging banks to become net buyers of shares, the central bank has been telling them to invest less because of worries that the troubled banking sector is over-exposed in the market.

Some Finance Ministry officials suggest that their market meddling may soon be a thing of the past.

A test of their good intentions will come if the market takes another dip in the coming months as the government tightens the money supply to keep inflation under control.

Marginal gain for Nikkei in muted region

Tokyo

The government's willingness to use public funds to help the financial industry did little for share prices, and the Nikkei index finally posted a marginal gain in technical trading, *writes Emiko Terazono in Tokyo.*

The 225 average closed 48.19 higher at 15,897.32 after moving between 15,740.03 and 15,921.26. Last week's comments by Mr Masayoshi Takemura over the possible utilisation of public funds to solve the banks' bad loan problem helped stock prices in the morning. But a fall in the futures market prompted arbitrage unwinding; and concerns over institutional profit-taking around the 16,000 level also triggered selling.

Volume fell from 265m shares to 184m. Individual investors led trading, targeting speculative stocks which dominated dealing, accounting for five of the top 10 most active issues by volume.

The Topix index of all first section stocks put on 1.64 at 1,279.63 and the Nikkei 300 edged up 0.62 to 238.38, but declines led advances by 577 to 397, with 185 issues unchanged. In London the ISE/Nikkei 50 index was 0.16 firmer at 1,061.27.

Traders noted growing anxiety over the Bank of Japan's Tankan, or quarterly survey of business sentiment, which is to be released on Friday. Some investors were also concerned that the settlement of June futures and options contracts at the end of the week might affect share prices.

Maruyama, an agricultural sprayer manufacturer, was the day's most active issue, rising by its daily limit of Y100 to Y664 on individual buying.

Daido Steel Sheet also advanced by its limit of Y100 to Y940, while Takara Shuzo, a distilled spirit manufacturer, climbed Y46 to Y714 on reports that it had developed a new gene therapy method with a US university team.

Some banks were supported by short-covering following last week's government announcement. Industrial Bank of Japan rose Y40 to Y2,610, as did Mitsubishi Bank, to Y2,150. Sakura Bank eased Y10 to Y1,020 on profit-taking.

Hopes that public funds will also be extended to the property market, to help banks with their property collateral on bad loans, lifted real estate companies. Mitsui Fudosan gained Y12 at Y977 and Mitsubishi Estate Y26 at Y969.

Profit-taking weakened high-technology stocks. Toshiba dipped Y2 to Y528, while Matsushita Electric Industrial retreated Y20 to Y1,310 and TDK shed Y100 to Y3,700.

In Osaka, the OSE average declined 45.24 to 17,030.28 in volume of 7m shares.

Roundup

Some Pacific Rim markets remained at highs for the year, although activity was muted throughout much of the region.

KUALA LUMPUR attained a new peak for the year, boosted by further buying of a clutch of blue chip stocks. The composite index ended 6.96 firmer at 1,085.04 in volume of 155m shares, after 171m on Friday.

Malaysian Airline System slipped 25 cents to M$8.30, adding to Friday's 40-cent loss, after posting lower than expected earnings.

Wembley Industries was the most active issue, appreciating 62 cents to M$4.44 in volume of 6.7m shares.

BANGKOK posted another year's high on concentrated buying of property development issues, but gains were limited by profit-taking in finance, banking and telecommunications. The SET index put on 1.38 at 1,408.26 in heavy volume of 144.7m shares.

The property development sector, increasingly attractive in the wake of falling domestic interest rates, rose 2.5 per cent.

MANILA finished at a high for the year as renewed foreign demand late in the day overcame early hesitancy which reflected Wall Street's weakness on Friday.

The composite index added 15.87 at 2,840.54 in volume of 2.1bn shares.

Philippine National Bank was to the fore, gaining 3.7 per cent at 352.50 pesos. Among second liners, ABS-CBN advanced 4.6 *per cent to 87.50* pesos, Sime Darby 10 per cent to 22 pesos and Waterfront 7.8 per cent to 3.50 pesos.

SHENZHEN's domestic A shares tumbled on rumours that this year's quota for new share listings would be much larger than expected. The A index lost 3.24 or 2.3 per cent at 136.52 as turnover dropped to Yn210.2m from Yn257.8m, while the hard currency B index eased 0.26 to 67.19.

SHANGHAI's B index shed 0.687 or 1.2 per cent to 55.610 as investors cleared part of their positions in expectation of new B share issues. The A index, sharply lower over the last fortnight, fell a further 26.804 or 3.6 per cent to 718.278.

SYDNEY edged forward, with rallying bonds stemming any negative reaction to Friday's trend on Wall Street.

The All Ordinaries index finished 5.0 higher at 2,011.7.

News Corp added 20 cents at A$7.58 and Pacific Dunlop continued its recovery, rising 17 cents to A$3.02 after dismissing concerns about its Telectronics operation.

JAKARTA finished marginally higher in active trade on buying of third-line property related stocks, but profit-taking following last week's sharp rise limited the gains. The *composite index was 3.84 ahead at 497.26.*

SINGAPORE was firmer, but in thin trade with many retail and institutional buyers absent. The Straits Times Industrial index rose 9.53 to 2,218.63 in volume of 96.2m shares, while the UOB OTC index, tracking mostly Malaysian stocks, was up 10.20 at 1,160.53.

HONG KONG finished flat after investors sold into the morning's 116-point rally to take profits. The Hang Seng index closed 10.63 higher at 9,570.37 in turnover of HK$5.5bn. One analyst commented that a sell-off of index futures, which began just before lunchtime, had helped to bring blue chips back.

COLOMBO broke out of its rut to close firmer on institutional buying of blue chips. The all-share index moved ahead 7.10 to 715.51.

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1995	Start of 1995	Start of 1995
Austria	+2.45	+5.02	-2.28	-1.85	+6.48	+8.30
Belgium	+0.94	+0.97	-1.12	+5.70	+14.75	+16.71
Denmark	-0.33	+3.48	-3.75	+1.08	+10.33	+12.21
Finland	+0.48	+6.64	+15.57	+4.07	+12.52	+14.43
France	+2.03	+2.55	-0.74	+6.14	+12.58	+14.50
Germany	+2.69	+4.52	-1.95	-0.19	+8.19	+10.03
Ireland	+1.77	+2.20	+15.30	+6.03	+9.91	+11.78
Italy	+1.21	-3.61	-11.32	+0.95	-1.63	+0.04
Netherlands	+1.78	+2.04	+7.29	+4.67	+13.79	+15.73
Norway	-0.23	-1.67	+1.25	-3.62	+2.67	+4.41
Spain	+0.80	+1.81	-7.31	+3.91	+10.51	+12.38
Sweden	+1.97	+3.39	+12.96	+11.81	+12.17	+14.08
Switzerland	+1.51	+5.32	+2.85	+6.27	+18.24	+20.24
UK	+1.02	+2.95	+11.20	+8.93	+8.93	+10.78
EUROPE	+1.50	+2.87	+4.01	+5.80	+10.30	+12.17
Australia	-1.01	-3.39	-2.54	+4.31	-5.32	-3.72
Hong Kong	+2.25	+13.96	-0.58	+14.89	+13.02	+14.94
Japan	+0.52	-5.36	-23.74	-17.48	-3.77	-2.13
Malaysia	+2.89	+15.99	+19.22	+11.78	+14.37	+16.31
New Zealand	+0.18	-1.00	+3.52	+12.23	+15.20	+17.16
Singapore	+2.42	+11.06	+8.80	+4.84	+8.09	+9.93
Canada	+0.38	+4.87	+7.39	+6.69	+6.89	+8.71
USA	+1.69	+2.38	+16.76	+16.05	+14.11	+16.05
Mexico	+3.12	-1.38	-13.88	-13.88	-32.51	-31.37
South Africa	+0.71	-2.22	-0.10	-7.17	+1.20	+2.92
WORLD INDEX	+1.27	+0.53	-1.05	+1.85	+6.68	+8.50

† Based on June 2, 1995. Copyright, The Financial Times Limited, Goldman, Sachs & Co, and NatWest Securities Limited.

FT-SE Actuaries Share Indices

Jun 5							THE EUROPEAN SERIES	
Hourly changes	Open†	10.30†	11.00†	12.00†	13.00†	14.00†	15.00†	Close†
FT-SE Eurotrack 100	1375.70	1374.54	1375.20	1375.00	1375.29	1376.19	1376.34	1375.78
FT-SE Eurotrack 200	1459.71	1460.63	1459.99	1461.02	1461.17	1462.61	1463.39	1461.39

	Jun 2	Jun 1	May 31	May 30	May 26
FT-SE Eurotrack 100	1372.38	1374.30	1354.50	1349.01	1341.87
FT-SE Eurotrack 200	1458.70	1465.21	1442.07	1438.49	1434.98

Base 1000 (26/10/90); High/day: 100 - 1377.29; 200 - 1465.32 Low/day: 100 - 1374.20 200 - 1459.63 † Partial

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by The Financial Times and Goldman Sachs in conjunction with the Institute of Actuaries and the Faculty of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS	FRIDAY JUNE 2 1995								THURSDAY JUNE 1 1995					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (83)	165.26	-0.5	154.00	87.89	120.81	153.51	-0.8	4.09	166.12	154.80	88.36	122.93	154.69	180.82	157.95	174.65
Austria (26)	197.90	1.9	184.41	105.24	144.66	144.47	0.6	1.23	194.25	181.01	104.49	143.74	143.55	198.89	167.46	173.19
Belgium (35)	196.57	1.1	183.16	104.53	143.68	139.74	0.0	3.74	194.37	181.12	104.56	143.83	138.73	201.12	161.66	169.80
Brazil (28)	143.24	5.1	133.47	76.17	104.70	237.95	4.6	1.40	136.34	127.05	73.34	100.89	227.50	–	–	–
Canada (102)	140.66	-0.3	131.07	74.80	102.82	140.22	-0.1	2.52	141.10	131.47	75.90	104.40	140.40	141.62	120.54	130.22
Denmark (33)	282.56	1.1	263.29	150.26	206.54	210.68	-0.2	1.50	279.35	260.30	150.27	206.70	211.04	287.44	238.61	248.21
Finland (24)	212.80	1.1	198.29	113.17	155.55	192.50	0.0	1.81	210.47	196.12	113.22	155.74	192.54	214.68	133.86	145.21
France (101)	187.28	1.4	174.49	99.58	136.88	145.32	0.4	3.04	184.61	172.02	99.31	136.60	144.78	191.17	157.79	165.51
Germany (59)	157.89	1.8	146.93	83.86	115.26	115.26	0.6	2.06	154.85	144.29	83.30	114.58	114.58	157.69	132.08	136.91
Hong Kong (55)	374.86	0.1	349.30	199.35	274.01	372.19	0.1	3.66	374.28	348.76	201.34	276.96	371.74	416.42	277.40	377.37
Ireland (16)	230.53	0.8	214.81	122.59	168.51	199.51	0.5	3.58	228.69	213.09	123.02	169.22	198.49	230.53	180.67	181.31
Italy (58)	75.32	0.7	70.19	40.06	55.06	92.09	-0.1	1.76	74.80	69.70	40.24	55.35	92.14	89.22	65.45	67.05
Japan (463)	153.60	2.6	143.13	81.68	112.28	81.68	1.4	0.92	149.77	139.56	80.56	110.82	80.56	170.10	136.95	161.48
Malaysia (97)	557.57	0.6	519.55	296.52	407.57	526.86	0.2	1.55	554.47	516.67	298.27	410.30	525.64	594.76	398.16	443.90
Mexico (18)	971.95	1.2	905.67	516.88	710.46	6567.37	0.6	2.04	960.31	894.82	516.58	710.58	6525.46	2414.12	647.81	2097.74
Netherland (19)	251.00	0.9	233.88	133.48	183.47	179.80	-0.4	3.51	248.72	231.76	133.80	184.05	180.47	252.34	194.56	196.37
New Zealand (14)	82.54	1.7	76.92	43.90	60.34	65.59	0.7	4.56	81.19	75.65	43.67	60.08	65.16	84.31	64.00	70.85
Norway (33)	222.58	0.6	207.40	118.37	162.70	188.62	-0.5	2.24	221.17	206.09	118.97	163.65	189.56	230.07	177.53	191.74
Singapore (44)	410.10	-0.1	382.13	218.09	299.77	262.78	-0.1	1.64	410.58	382.59	220.87	303.82	263.19	410.58	313.94	341.78
South Africa (61)	346.54	1.0	322.90	184.29	253.30	278.38	0.7	2.48	343.13	319.73	184.58	253.90	276.34	363.22	261.43	265.60
Spain (38)	148.30	1.5	138.19	78.87	108.40	136.73	0.2	4.13	146.07	136.11	78.57	108.08	136.48	151.79	124.10	142.83
Sweden (48)	263.65	1.0	245.67	140.21	192.72	284.39	0.2	2.10	261.10	243.30	140.46	193.21	283.80	263.65	196.70	216.57
Switzerland (46)	198.63	1.3	185.09	105.63	145.19	142.42	-0.3	1.80	196.12	182.74	105.50	145.12	142.80	198.86	155.05	159.14
Thailand (46)	174.91	0.9	162.98	93.02	127.86	167.27	0.7	2.61	173.40	161.57	93.28	128.31	166.19	–	–	–
United Kingdom (203)	215.84	0.1	201.12	114.79	157.78	201.12	0.1	4.15	215.59	200.89	115.97	159.53	200.89	216.25	181.11	184.50
USA (506)	217.89	-0.2	203.03	115.87	159.27	217.89	-0.2	2.84	218.24	203.35	117.40	161.49	218.24	218.24	180.55	186.61
Americas (654)	199.74	-0.1	186.11	106.22	146.00	187.54	-0.1	2.82	199.94	186.30	107.55	147.94	167.71	–	–	–
Europe (739)	189.52	0.9	176.60	100.79	138.53	159.35	0.1	3.12	187.88	175.05	101.05	139.01	159.14	189.52	160.59	163.95
Nordic (138)	253.40	1.0	236.12	134.76	185.23	225.59	0.0	1.93	250.92	233.81	134.98	185.67	225.64	253.40	197.70	205.91
Pacific Basin (822)	163.60	2.1	152.44	87.00	119.59	93.21	1.1	1.29	160.17	149.25	86.16	118.52	92.16	176.86	145.93	169.24
Euro-Pacific (1561)	174.30	1.6	162.41	92.69	127.41	117.95	0.7	2.12	171.61	159.90	92.31	126.98	117.15	178.33	154.73	168.89
North America (608)	213.10	-0.2	198.57	113.33	155.77	212.63	-0.2	2.64	213.46	198.90	114.83	157.95	212.97	213.47	176.83	183.11
Europe Ex. UK (536)	170.97	1.3	159.31	90.92	124.97	136.68	0.1	2.55	168.74	157.23	90.77	124.86	135.49	171.03	144.12	149.01
Pacific Ex. Japan (339)	259.91	0.1	242.19	138.22	189.98	229.02	-0.1	3.10	259.61	241.91	139.65	192.10	229.20	273.13	211.19	245.47
World Ex. US (1770)	174.87	1.5	162.95	93.00	127.82	121.52	0.7	2.13	172.24	160.49	92.65	127.45	120.70	178.73	155.42	169.04
World Ex. UK (2073)	185.08	1.0	172.46	98.42	135.29	144.57	0.4	2.12	183.27	170.78	98.59	135.61	144.00	187.07	163.46	172.07
World Ex. Japan (1793)	207.65	0.3	193.49	110.43	151.78	193.34	-0.0	2.84	207.03	192.91	111.37	153.19	193.35	207.65	176.74	181.60
The World Index (2276)	187.78	0.9	174.97	99.86	137.26	149.45	0.4	2.32	186.10	173.41	100.11	137.71	148.90	189.27	165.92	173.19

Latest prices were unavailable for this edition.

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FINANCIAL TIMES SURVEY

FOREIGN EXCHANGE

Tuesday June 6 1995

Grappling with the problems of maturity

After 15 years of growth, dealers are coming to terms with a change in the foreign exchange business. Philip Gawith looks at a market in transition

Superficially, it is business as usual in the foreign exchange markets. Central banks have been intervening to support the dollar, and investors remain as confused as ever about the outlook for the world's main trading and reserve currency.

Scratch a little deeper, though, and you find an industry in transition. After 15 years of uninterrupted growth culminating in the halcyon 1992/3 period, 1994 was the year when the music stopped for the foreign exchange business. The sharp reversal in world bond markets, and the steep decline in the dollar, inflicted heavy losses on investors, with the fall-out being clearly felt in the foreign exchange market.

Profits fell sharply from the giddy levels of 1992 and 1993, and the fall-out is still very much affecting the market today. On a day-to-day level, this is clearly evident in the deterioration in liquidity – the ability to transact business without significantly moving the price – across a broad range of currencies.

At another level, it has raised the question of whether foreign exchange is now a mature industry, with senior industry figures speculating privately that it may be a market whose best years are behind it.

Julian Simmonds, head of global foreign exchange at Citibank in London, is one who believes there has been a "permanent change" in the way business is being done. "I feel that I am managing a business in transition," he says.

Trends in the market, coupled with more regulation, such as capital adequacy initiatives, mean that banks are forced to worry more about the costs and returns of their foreign exchange business, and not only about revenues and profits. In other words, there is a drive towards a better quality business.

These short- and long-term perspectives are intimately intertwined. The drying up of liquidity is directly related to the fall in industry profits last year, which, in turn, is the reason why people are wondering about what sort of future the industry faces.

One of the results of lower profits is that second-tier banks have had to cut back their foreign exchange activities. Regional banks, for example, which were tempted to expand their activities in 1992/93 on the back of buoyant asset markets and booming foreign exchange revenues, have been forced to return to their knitting.

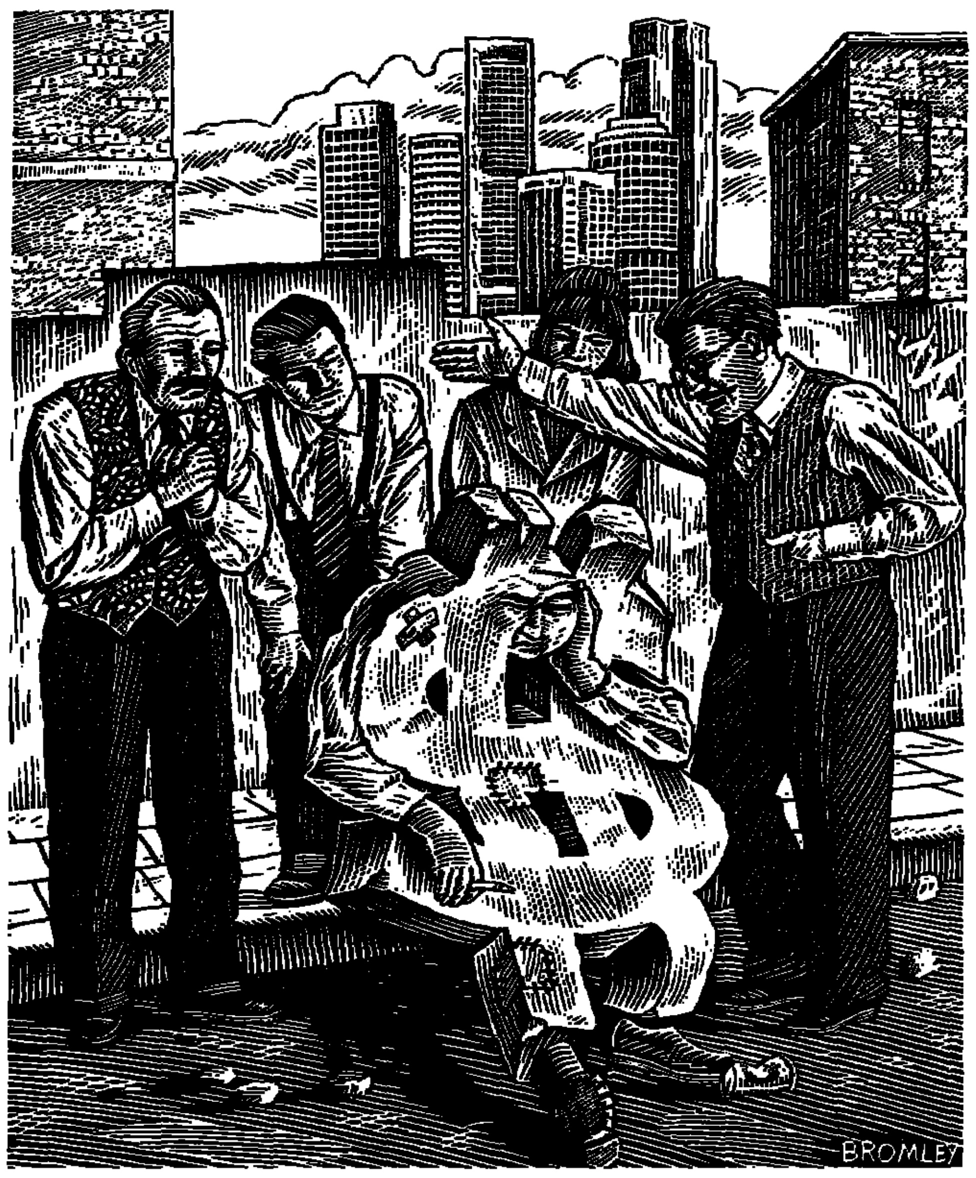
US investment banks, which set up sizeable foreign exchange desks to service the large flow of US funds abroad, have also been forced to re-assess their positions. Phillipe Jordan, vice-president at Daiwa Securities in New York, says the "rise and fall of the Wall Street foreign exchange desk" correlates perfectly with the declining rate of increase in the growth of US offshore funds.

Lower profits have also dampened the risk appetite within the industry. Position takers, such as hedge funds and the proprietary desks of banks, have pulled in their horns. Brace Young, managing director of fixed income and foreign exchange at Goldman Sachs in London, explains: "All trading is subject to the opportunity of the market. We don't see the opportunities to take significant amounts of risk."

There is a danger that this process can become self-perpetuating. Lack of liquidity has contributed to some of the exceptional volatility seen in the market this year. But if, within this volatility, traders cannot see a trend, they become increasingly risk averse, holding smaller positions for shorter periods. This has clearly been the case at times this year, and if day traders in the interbank market become more cautious, this simply serves as a further drain on liquidity, making prices more prone to volatile movement.

Patchy liquidity and price volatility need to be kept in perspective. First, there is some dispute whether 1995 has witnessed anything out of the ordinary in this regard. Second, even if it has, many people welcome it. Chris Deuters, head of global foreign exchange at Lehman Brothers in London, says: "Liquidity gaps shouldn't frighten people who have been in these markets for some years." Indeed, many banks report that March was one of the best months the industry has ever experienced.

While some banks are concerned about recent volatility, suggesting that prices reflect the power of a few investors rather than underlying fundamentals, older hands give this analysis short shrift. David Puth, head of foreign exchange at Chemical Bank in New York, comments: "Nobody has ever forced me to make a price to anybody. You don't have to play at the $1,000 blackjack table if you don't want to."



Finally, there is always liquidity available – it is just a question of "at what price". Some of the squeals emanating from the industry sound very much like people who have failed to price liquidity correctly – the result, probably, of too many banks fighting for too few scraps of business, and pricing unrealistically as a result.

Klaus Said, head of foreign exchange at JP Morgan in New York, notes: "If you are stupid enough to make five point prices when the market is gapping by 50 basis points, you deserve to be punished."

Certainly one of the factors contributing to the crimping of margins has been the dash for customer business by those banks previously dependent on proprietary profits, which are now more difficult to come by. If solemn homages to the customer are anything to go by, then the foreign exchange industry cannot be accused of shirking its responsibilities as a service industry.

By all accounts, these efforts are well directed. The recent Euromoney annual survey of foreign exchange customers found "relationship" to be the single most important factor in choosing a bank. So, even if foreign exchange is a commodity business, customers clearly value a customised service, and the ability to have someone to turn to when the market environment becomes difficult.

But while customer service may be improving, this is not to say customers are having an easy time of it. Barely a day passes without some large multinational company lamenting the impact on its performance of exchange rate volatility. Diminished liquidity and heightened volatility also make business more complicated and expensive to transact. In illiquid markets, it may take longer to get business done, while the cost of insuring against volatility obviously rises as volatility increases.

Of some comfort is the fact that product innovation, particularly in areas such as exotic options, allow customers much more sophisticated tools for managing their exchange rate exposure than were previously available. Despite some of the adverse publicity surrounding derivative products, users have not been frightened off and options are probably the fastest growing part of the foreign exchange industry.

If new products is one area of growth, new markets is another. As developing market economies grow, so, too, does their integration into global foreign exchange markets. Not all of them like it – witness the efforts of Asia-Pacific countries to establish a foreign exchange stabilisation fund, in an attempt to counteract exchange rate fluctuations which they judge do not reflect economic fundamentals.

Nor is the process without hiccups. The Mexican crisis earlier this year, triggered by the devaluation of the peso in December, and the contagion which spread to other emerging markets, was a reminder of the risks associated in this area. When all the caveats are uttered, though, trade in these exotic or developing currencies – be they the Mexican peso, the Malaysian ringgit or the South African rand – can only be on an upward curve.

Another area of change for the business lies in the field of broking, with electronic broking systems such as EBS and Reuters Dealing 2000-2 making significant inroads into the market. Talk of the demise of voice-brokers is misplaced, but it is difficult not to trace some of the staff cuts announced in recent months to the advent of electronic broking.

Behind the minutiae of industry issues lie some intriguing developments which will bear heavily on the industry's fortunes. One concerns the move towards monetary union and a single currency in Europe. Policy errors in this process provided foreign exchange dealers with profits which were as easy as they were enormous in 1992/3.

Already they are wringing their hands in eager anticipation as the timetable for a single currency moves up the policy agenda. Again there is a whiff in the air suggesting that politicians are seeking to impose timetables which markets believe are inconsistent with underlying economic fundamentals. While past performance makes such scepticism difficult to fault, it may be that markets have not properly taken into account the political will which exists in leading

Continued on page 2

IN THIS SURVEY

Philip Coggan examines the theories behind currency movements

Quest for a spot-on forecast

The search for a means of forecasting foreign exchange rate movements has proved almost as fruitless as the alchemists' medieval quest for a formula for turning lead into gold.

A substantial problem for economists and analysts is that exchange rates are determined by a host of factors, which sometimes point in the same direction but more usually counteract each other.

According to Avinash Persaud, currency strategist at JP Morgan in London, there are three main flows affecting the markets – trade, money market and portfolio capital.

If trade flows are moving the market, then competitiveness is the most important factor; if money market flows are dominating, the key is interest rate differentials; if portfolio capital predominates, it is the valuation of bond and equity markets.

Over the past two years, portfolio capital moves have dominated the market, to the confusion of analysts who tend to concentrate on economic factors, such as inflation, and on interest rate differentials.

One of the oldest ways of examining the competitiveness issue is purchasing power parity (PPP) theory which states, essentially, that a basket of goods in one country should cost the same as the identical basket of goods in another nation. Movements in exchange rates, therefore, will be determined by inflation levels; if country A has a higher inflation rate than country B, then the former's currency will depreciate against the latter.

If consumers could instantly jet around the world, buying apples in Andorra and yachts in Zaire, PPP theory might hold good. In practice, many goods and services are not traded across national boundaries, either because of cost or simply differences in national taste.

Economists therefore argue on whether to calculate PPP levels using producer prices, unit labour costs or some other indicator. Whichever way it is measured, however, the most important exchange rates, $/DM and $/Y, have consistently overshoot or undershoot their perceived PPP levels, leading analysts to look for other causes of currency movements.

A related issue is the balance of payments. A trade deficit is an imbalance in the economy, and is a sign that domestic demand is too high. Under the gold standard, there was an automatic mechanism through which demand was reduced to bring the economy back into balance.

Floating exchange rates allow countries to make the adjustment in terms of currency depreciation. This should make the country's exports more attractive, helping to remedy the trade problem, but it also increases the price of imports. If monetary policy accommodates those higher import prices, then the competitiveness advantage of devaluation quickly dissipates. Countries can get trapped in a cycle of depreciation and inflation.

However, the US has been able to run a persistent balance of payments deficit and suffer steady dollar depreciation, without substantial inflationary consequences, because trade forms a relatively small proportion of its GDP.

Purchasing power parity theory states that a basket of goods in one country should cost the same as the identical basket of goods in another nation

One way of reducing demand, and thereby eliminating a trade deficit, is, of course, to increase interest rates. Such a strategy can also support a currency, by attracting money market flows, but the effect is by no means certain. If interest rates are raised in such a way as to damage the economy, and the prospects for corporate profits, portfolio capital may fly out quicker than money market funds can flow in.

Similarly, markets may decide that the government will simply not have the stomach to raise interest rates sufficiently to deal with the problem. This was the dilemma faced by the UK in 1992, when traders doubted that the government would be willing to defend the pound with higher rates in the teeth of a recession.

Conversely, Germany can get away with low interest rates because the markets believe the Bundesbank will act ruthlessly to eliminate inflation when it is necessary.

The determinants of portfolio capital flows are hard to predict. A persistent trade deficit, such as that run by the US, is a consequence of a shortfall of domestic savings, while the Japanese current account surplus is a function of high savings rates.

This has transformed the US into a debtor nation and Japan into the world's largest creditor and means that the fate of the dollar can depend on investment decisions made by Japanese pension funds and insurance companies.

Similarly, current account deficits in emerging economies such as Mexico made the domestic currency very dependent on the attitudes of US portfolio managers. The recent Mexican crisis has rammed home that if countries are funding their deficits with short-term capital (or in liquid equity markets), the results of a loss of confidence can be devastating on the currency.

Countries in south-east Asia which have relied on direct investment in factories and businesses to fund their deficits have proved much less vulnerable: it is simply far less easy to withdraw such capital.

One of the main themes of the past year has been the shift in attitude towards countries with large budget deficits. Often, such governments have to rely on foreign investors to fund their deficits – but portfolio managers have become increasingly concerned that debts will be subject to creeping default (via persistent devaluations) or indeed outright non-payment.

From all this, one can create a composite picture of a weak currency: it belongs to a country with high inflation, debts and a trade deficit, where investors lack confidence in the government's ability to tackle problems.

Chartists, however, argue that such fundamental issues do not determine market movements in the short term, and have recently been receiving support from the academic community.

Academics who have studied the foreign exchange markets have found that they do not meet the definition of an efficient market, in which new information is instantly incorporated in prices.

Two particular inefficiencies appear to affect the market, and create opportunities for profit. The first is that those involved in the market have different views and motives, in other words they are heterogeneous.

Bank dealers may have a time horizon of just 10 minutes; corporate treasurers of 12 months. Central banks are not trying to make a profit but to support a particular currency.

A second market trait is that volatility persists. A traumatic market event will be followed by a period of substantial price movements, rather as an earthquake is followed by aftershocks.

These properties of the market are described in academic jargon as heterogeneous autoregressive conditional heteroskedasticity – or Harch for short.

This analysis offers the prospect of models which use Harch to predict short-term exchange rate movements. Models have been developed by Olsen & Associates of Switzerland with mixed results in practice so far.

But Harch is likely to be the subject of much further analysis and examination by foreign exchange practitioners over the next few years.

Is the dollar's reserve currency status under threat? asks **Philip Gawith**

Down but definitely not out

The long-running decline in the value of the dollar, which accelerated in the first quarter of this year, has raised the question of whether its reserve currency status has been compromised.

Historians have started to draw comparisons with the British experience after the second world war. What is happening with the dollar and the US now is reminiscent of sterling's decline as the premier reserve currency which took place in tandem with the UK's post-war retreat as a leading world power.

Certainly, when investors were running for cover in the first quarter, they did not seek refuge in the dollar. It was the D-Mark, yen and Swiss franc which were perceived as the world's safe-haven currencies. If central banks reach the same conclusion, they are likely to want to hold fewer of their reserves in dollars.

This line of thinking gathered force recently when Asian central banks were frequently cited as heavy sellers of dollars. Talk of diversification out of dollars by these banks, where some of the largest growth in foreign exchange reserves is taking place, was cited as a potential long-term downward pressure on the dollar.

A recent example was the announcement by China that it had reduced the proportion of dollars in its reserves in favour of the yen and stronger European currencies. The central bank said the non-US dollar component of China's reserves, which stood at about $58bn, had increased to 25 per cent from 10 per cent at the end of 1994. Hong Kong and Australia have admitted that they have slightly lower dollar holdings, and market talk is that countries such as Taiwan, Indonesia and Singapore have also decreased their dollar holdings.

It can, of course, be argued that the dollar's decline as a reserve currency is inevitable: it still accounts for more than 60 per cent of foreign exchange reserves and roughly half of global private financial wealth, while around two-thirds of world trade is invoiced in dollars. By contrast, the US accounts for only one fifth of world output and 14 per cent of exports.

Alvin (A.C.) Moore of Dunvegan Associates, a California-based investment management firm, explains this disproportionate role: "The US has remained the world's policeman and, thus, has been the receiver of monies seeking safety." But, he adds, in a post-cold war world, increased German and Japanese confidence in the use of their currencies "creates the potential for world currency holdings to more closely approximate national output".

While there is little dispute among central banks that this process of diversification is under way – at a "modest to moderate" rate, in the words of one banker – there is no sense of crisis. Indeed, reports of the dollar's demise appear somewhat exaggerated. Up-to-date foreign reserve figures are not available, but IMF figures from 1988-93 show no evidence of any secular trend away from the dollar. In 1993, 61.4 per cent of world central bank reserves were held in dollars, down from 64.6 per cent in 1988, but up from 57.5 per cent in 1990.

Over a longer period the trend is a bit clearer. Between 1976 and 1993 the position of industrialised country reserves held in dollars dropped from 87 per cent to 60.7 per cent.

More recently, the custodial holdings of dollars at the New York Federal Reserve – which reflects the amount of US securities held on custody for other central banks – has risen sharply from around $410bn at the beginning of the year to near $450bn at the beginning of May. This is only a slice of the picture: it does not mean that the same process is happening at all central banks, but it does testify to continued willingness to hold dollars.

Asian central banks could have three possible reason for selling their dollar holdings: to make a one-off stock adjustment; to adjust a mismatch between liabilities (loans) in yen, with revenues in dollars; or to adjust the hedging ratio of their dollar assets.

There is no doubt that some Asian countries have built up large dollar balances through achieving long-running balance of payments surpluses. At the same time, much of their financing will have been done in yen. It appears that a significant portion of these liabilities was unhedged, in which case these banks would have suffered from the sharp rise in the yen. Against this backdrop, it would not be unusual for them to re-appraise their reserve position.

Nobody in Washington is particularly surprised by this trend. As one senior financial official commented: "We have had 100 per cent market share at one point. Now we have some competition." This is not to say that a decline in reserve currency status does not matter. As another Washington policy-maker commented: "You are talking about the perceived value of my country's only product."

It is not only a matter of pride or status. Around $250bn are held abroad. A back-of-the-cigarette-box calculation shows that, assuming this money could earn 6 per cent interest in the US, the Treasury is saved $15bn a year by foreigners' readiness to hold dollars. It also probably saves the Treasury a few basis points in funding costs – real money when the national debt is $4,000bn.

Other benefits include the fact that US companies benefit from having their currency as the international medium of exchange, and from being able to borrow in dollars. There is also an intangible psychological benefit in having your money accepted everywhere.

Whatever the extent of the decline, there are good reasons for assuming the dollar will maintain its pre-eminent status. Except in Europe, where the D-Mark is the main currency for foreign exchange intervention, the dollar is the primary tool most central banks need to influence the value of their currencies. Most currencies are quoted against the dollar, so it is the natural medium of intervention.

A currency's suitability for reserve purposes is also a function of the sophistication and liquidity of its domestic capital markets. It is more likely to acquire reserve status if it, and similarly denominated short-term securities, are easy to buy and sell. In this respect, US capital markets are unrivalled in their breadth and depth (it is also on this point where the analogy with post-war Britain breaks down. The UK did not, in the 1960s and 1970s, have capital markets equivalent to those in the US now.)

It is for these reasons that one central bank observer concludes: "I can see the portion of dollar-held reserves being cut back from large to less, but it is hard to see it going much further."

Who is making the money? **Philip Gawith** draws his conclusions

Figuring out the profits

Foreign exchange may be the largest and most liquid of financial markets, but the same cannot be said for transparency. When it comes to the two most basic of benchmarks, turnover and profit, the figures are not easy to find.

The Bank of Japan provides a daily turnover figure for what is happening in Tokyo, but similar figures are not available elsewhere. To estimate industry activity, companies need to extrapolate from their own experience, or wait for the triennial Bank for International Settlements' survey of the industry.

The last BIS survey, in April 1992, found that daily net turnover was around $880bn a day. The latest survey took place in April 1995, but results will only be known in 1996.

Everyone agrees that March 1995 was an exceptional month, both in terms of volume and profitability – the best ever, or close to the best, for most banks. Chris Deuters, head of global foreign exchange at Lehman Brothers, reckons that if the BIS survey had been conducted in March, turnover may have been as high as $2,000bn a day, but doubts whether the April figure will be above $1,400bn.

Others are more ambitious. Klaus Said, head of foreign exchange at JP Morgan in New York, comments: "We think it [the daily April turnover figure] will start with a two. Some say three. People just don't know what is going on." More typical is the opinion of Julian Simmonds, head of foreign exchange at Citibank in London, who expects a slowdown in the rate of growth in turnover (from 100 per cent in 1989, to 42 per cent in 1992) perhaps to something in the 15-30 per cent range in 1995.

When it comes to profits, comparing like with like is very difficult since there is little uniformity in the way profits are reported. In general, 1994 was a much more difficult year than the halcyon years of 1992/3 when roaring bond markets and crises in the ERM made things seem easy. The tone was set by the collapse in bond prices, which destroyed capital and inhibited risk appetite, with spin-offs in foreign exchange.

The conventional wisdom is that those who relied most on proprietary trading, or position taking, for their profits, were hardest hit. This gets some support from the performance of Bankers Trust, where foreign exchange trading revenue fell from $191m in 1993 to a $54m loss in 1994. But not all investment banks performed this badly. At Morgan Stanley, foreign exchange revenues fell to $153m from $205m in 1993. At JP Morgan revenues declined to $131m from $179m in 1993.

Goldman Sachs is a private partnership, so figures are not published. But Brace Young, managing director, fixed income and foreign exchange, at Goldman in London, did reveal recently that the volume of client business in London had grown by 120 per cent over the past two years, (with options and exotic derivative volumes up by 100 per cent and 70 per cent respectively).

Looking at the large money centre banks, foreign exchange revenues at Chemical Bank fell to $152m from $302m, although the 1994 figure included a one-off $70m loss on a rogue Mexican peso transaction conducted by one of its traders. At Citicorp, where trading figures are reported as rounded numbers, foreign exchange income fell to $600m from $1bn in 1993. At the HSBC group, foreign exchange profits fell by only 9 per cent to £343m from £377m in 1993, while at NatWest Markets, foreign exchange profits fell to £187m from £239m.

EUROPEAN MONETARY UNION: **Lionel Barber** discusses the issues

The master plan takes shape

Despite widespread scepticism bordering on indifference in the foreign exchange markets, it is time to report that preparations for the introduction of a single European currency by the end of the century have begun in earnest.

Inside the Frankfurt-based European Monetary Institute, the embryonic European central bank, dozens of specialists are working on a "master plan" which sets out in painstaking detail the technical steps needed to move to economic and monetary union.

In Brussels, the European Commission has just unveiled a discussion paper on Emu, an exercise geared as much to preparing public opinion as to spelling out the options and timetable for the introduction of future Euro-notes and coins, probably in the early part of the next decade.

The Commission paper is to be discussed at this month's European summit in Cannes, with a view to an agreement on the name of the single currency some time over the next 12 months. (The Germans are not keen on the French-sounding Ecu, though Chancellor Kohl is said to be willing to support the franc or franken because it sounds like the ultra-reliable Swiss currency).

All this activity points to a revival in momentum behind Emu which appeared unimaginable 18 months ago, when a succession of currency crises triggered the virtual collapse of Europe's exchange rate mechanism. True, the obstacles to Emu remain daunting; but it may be unwise to take too short-term a view of a project which still enjoys the long-term commitment of Europe's political leaders, with the exception of the British.

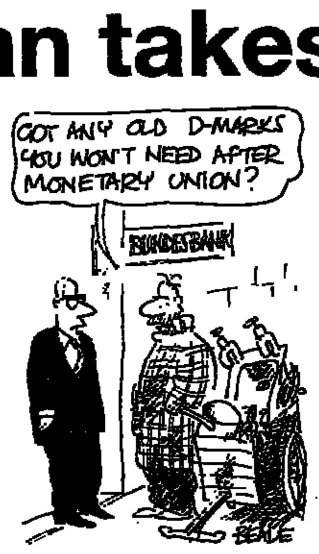
The economic arguments in favour of Emu are based on the belief that it would boost the efficiency of the single European market which has largely eliminated the barriers to the freedom of movement of goods, services and capital. Cross-border trade and investment would become easier as exchange rate fluctuations disappeared. In theory, the area covered by Emu would turn into a vast domestic market free of competitive devaluations.

The 1991 Maastricht treaty set out a timetable for Emu by 1997 by the earliest, or at the latest by January 1, 1999. Countries joining Emu must have similarly low inflation levels, long-term interest rates, and exchange rate stability. The most testing criteria are the fiscal targets, though the wording in the treaty leaves room for interpretation on how strictly they will be applied.

Under Maastricht, general government borrowing is supposed to be 3 per cent of GDP. But the treaty offers two let-outs: if the ratio has declined "substantially and continuously", or if it is "exceptional and temporary". On government debt, the treaty establishes a target of 60 per cent to GDP; but it also leaves open the door to laggards who can show that the ratio is "sufficiently diminishing and approaching (60 per cent) at a satisfactory pace".

Between 1992-3, the foreign exchange markets exploited the ambiguities in the treaty and the strains caused by economic recession, singling out weaker EU currencies for attack. Sterling and the Italian lira were forced to depart the ERM, while the Spanish peseta and the Portuguese escudo devalued several times. Jim O'Neill, head of global research at Swiss Bank, argues that the same experience will be repeated if Brussels tries to force the pace on Emu.

Mr O'Neill says attention will focus on the Belgian franc and the French franc, both of which are putative members of a hard-currency club built around the D-Mark. Though the Belgian franc has been remarkably stable since the crisis of 1992-93, questions remain about Belgium's national debt which remains twice the 60 per cent level set out in Maastricht. "The debt would be a credit risk within the Emu core," says Mr O'Neill, "it would be like a bad savings and loan in the US."



Michael Burke, an economist at Citibank in London, points to similar doubts about the sustainability of France's "franc fort" policy. The chief concern is how newly-elected President Chirac can square his campaign pledge to reduce unemployment with his promise to reduce the budget deficit and maintain a tough monetary policy in order to meet the Maastricht criteria in 1999. Mr Burke points to a second weak spot: the strains on French exports caused by the weakness of the dollar, sterling and, equally important, the competitive devaluations inside Spain and Italy, both principal trading partners of France.

Despite these uncertainties, the Commission and the EMI are working hard to resolve all technical obstacles by 1997. This would allow a political decision on which of the 15 EU member states qualify for Emu in 1997, in the unlikely event that the required majority constitutes itself. The more convincing date for lift-off is January 1, 1999. This would allow further fiscal consolidation, with the extra advantage that those meeting the criteria can go ahead, with or without a majority.

Such a timetable would suggest a decision on Emu some time between December 1997 and July 1998, after a UK general election but before the next German national election. The snag is the proposed delay of up to 12 months between the political decision to set up the European central bank and the economic decision to lock rates. The unanimous view among experts and market operators is that the delay could encourage market speculation against participating currencies.

Central bank governors are seeking to create some defence mechanisms, but in the world of free capital flows it is by no means obvious what can be done. One lesson from the last two years is that the half-way house of fixed but adjustable rates inside the old ERM is all too easily blown down by the financial markets.

A second issue is that the creation of a Franco-German led Emu could encourage currency instability among those countries not strong enough to participate. The relationship between the "inner core" and the periphery of weaker currencies could prove divisive; it may even require new political arrangements within the European Union.

Yet the commitment to press ahead with Emu remains strong. Jacques Santer, president of the European Commission, considers it a test of the Union's credibility. Whatever the unease among the German public about giving up the D-Mark, Chancellor Kohl remains convinced that Emu is part of his life's work to anchor Germany in a united Europe. The new Gaullist government seems as convinced as its Socialist predecessors that the pain of a hard franc policy is worth the gain of a European central bank which would break the hegemony of the Bundesbank over European monetary policy.

To paraphrase former UK prime minister Margaret Thatcher who remains one of Emu's biggest sceptics: there is no alternative, at least for those Europeans who hold the levers of power in Bonn, Brussels and Paris.

Grappling with problems of maturity

Continued from page 1

European Union member states to push for a single currency.

Certainly, further tremors in the exchange rate mechanism can be expected in the next few years. But the spectacle of central banks drawing a line in the sand, and attempting to defend it against speculators, à la 1992/3, seems most unlikely. The widening of the ERM divergence bands to 15 per cent has been successful in largely removing such set-piece currency skirmishes.

It is not only in Europe that central banks have learned their lessons. Within the forum of the G7 industrialised nations too, there is clearly less appetite for tangling with the markets. The belief that politicians can decide the direction of exchange rates is clearly not what it was at the time of the Plaza accord in 1985, when the G7 co-operation was effective in helping reduce the value of the dollar from around DM3.50 to DM1.80.

Partly this reflects their diminished power in the face of huge global capital flows, partly it reflects a philosophical shift in favour of markets, but partly it also reflects the fact that the underlying political consensus within the G7, to take concerted action to move exchange rates, simply does not exist. "The G7 is talking about managing divergence, rather than aspiring to convergence," says Mr Jordan, of Daiwa Securities.

If central banks have less power in relation to markets, the balance of power within central banks is also shifting. A significant portion of the growth in central bank foreign exchange reserves in recent years has come from the high growth Pacific rim countries. When these countries start selling dollars, as they have done in 1995, then the ability of the G7 to organise a stronger dollar is clearly even further constrained.

The long-term effects of these rumblings in the bowels of the foreign exchange markets remain unclear, but it is a fair bet that in the years ahead, the cast of the world's main traded currencies, and their values, will not be the same as today.

When the dollar falls, as it has done for most of the past year, pleas that "something must be done" pour into Washington DC, for the attention of the president, Congress and the Federal Reserve.

Even when the dollar is in decline, it remains the world's largest trading and reserve currency. Events therefore tend to be seen more in terms of a falling dollar than in terms of a rising yen or of a strengthening D-Mark.

Whether these pleas to Washington are well directed is another matter. It is far from clear whether the US authorities are particularly troubled about the current state of the dollar. Even if they are, it is not clear if there is much they can do, at least so far as the yen is concerned.

Richard Koo, an influential economist at the Nomura Research Institute in Tokyo, is one who belongs to this school. "The strong yen is made in Japan almost 100 per cent," he claims. "The US is basically powerless to affect the $/yen rate."

This would appear to be borne out by the events of the past 18 months, where protestations about favouring a stronger dollar, from the president down, coupled with seven increases in interest rates, appear to have had a negligible impact on the exchange rate.

The Japanese, by contrast, are very worried about the strong yen. Indeed, as the yen has appreciated inexorably against the dollar, from Y115 in January last year, to Y79.75, the shrieks of anguish from business people, bankers and politicians have become ever more frequent.

What is more, Japan, has the ability to arrest the trend in the dollar/yen rate. Unfortunately, according to Mr Koo, the political classes have not properly understood the problem, and hence have failed to respond suitably.

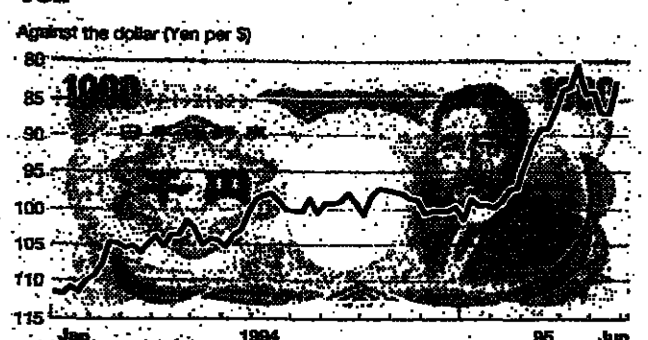
The most important cause of the appreciation of the yen is the country's success as an exporter. This creates an enormous current account surplus with the rest of the world – $129.3bn in 1994 (and an average of around $90bn for each of the four previous years). The companies that earn these dollars ultimately require yen cash to pay domestic workers, suppliers and shareholders, so they are a structural source of dollar selling. Unlike speculators or investors, they cannot change and become dollar buyers.

YEN: the rise in Japan's currency looks set to continue, says **Philip Gawith**

From strength to strength

Yen

Against the dollar (Yen per $)



Source: FT Graphite

In the past, that surplus was counterbalanced by net exports of long-term capital in two main forms: direct investment in companies and property overseas, and purchases of foreign stocks, bonds and other investments.

Until 1990, the capital outflow was roughly equivalent to the current account surplus, with Japanese investors happy to buy foreign companies and securities. In the 1990s, however, a number of important factors changed, making overseas investment a lot less attractive to Japanese investors.

■ First, Japanese investors suffered huge foreign exchange losses: $474bn, Mr Koo estimates, at Y95, or $5-600bn at Y85, since 1980.

■ Second, the collapse of asset prices in the 1990s removed the buffer provided by unrealised capital gains on stocks, and other assets such as land, which fund managers enjoyed in the 1980s.

With their ability to absorb losses on their foreign investments diminished, so their risk appetite for off-shore ventures has fallen.

■ Third, foreign interest rates fell. In the 1980s yields of 14 per cent were available at the long end of the US treasury market. These have now fallen below 7 per cent.

■ Finally, more stringent solvency margin rules have made offshore investments less attractive to Japanese investors.

The cumulative effect of these trends has been a massive withdrawal by Japanese investors from foreign markets.

But if the supply of dollars through the current account surplus remains steady, while the demand for dollars from Japanese offshore investors drops, the yen can only rise.

Richard Koo: "strong yen is made in Japan almost 100 per cent"

Aside from domestic investors going abroad, the only means of achieving balance between the demand and supply of yen (or dollars) is by opening domestic markets to imports, so that foreigners can earn yen.

With Japan running a bilateral trade surplus of nearly $60bn with the US in 1994, it is not surprising that the US is making every effort to improve access to Japanese markets. Dissatisfaction with the progress so far culminated last month in the US decision to impose a 100 per cent penalty surcharge on the import of $5.9bn worth of Japanese luxury cars into the US.

The deficit can either be adjusted through price, or through volume. The US, by pursuing managed trade – trying to extract numerical targets for market access – has favoured the volume route; Japan has favoured the price route.

Two points can be made. First, the sharp rise in the yen should, in the long run, narrow the trade gap, by increasing the price of Japanese exports, making them less competitive. The reverse applies to imports. These effects can, however, take time to work through the system.

Second, whether the US's return to the managed trade route will have much impact is a moot point. Even if the steps taken were totally effective and cut Japanese exports by $5.9bn, this would only deal with 10 per cent of the problem (the $60bn surplus).

Anyway, the powerful Japanese Ministry of Trade and Industry (MITI) says it plans to take counter measures which will neutralise any US gains.

Mr Koo argues that MITI is "very united in fighting the US position. No-one can stop them now".

His concern is that if the current squabble spins out of control, it will prove "a very costly war", pushing the Japanese economy into recession, and prompting either the stock market or the yen to collapse.

Although the dollar has shown signs of strength recently, few would be confident that the current chapter of yen strength is over. While there is little dispute that it is considerably overvalued – according to the OECD, the "fair value" or PPP of the yen was Y181 against the dollar last year – this does not mean it cannot become more so.

Until Japanese investors are confident enough to buy dollars and return to US asset markets, it is difficult to see how the dollar can recover. Such a return is unlikely, however, without compelling evidence that Japanese markets are opening, and that the trade surplus will fall.

So far, however, Japanese authorities have shown little inclination to take the sort of measures which will allow the surplus to fall meaningfully. It is not an encouraging picture.

DOLLAR: **Philip Gawith** says the performance of the US currency has confounded the forecasters

Time may prove to be the great healer

If you were to offer advice on a career to your nephew, it would be as well to tell him to steer clear of forecasting currency movements, particularly that of the dollar. Apart from a few notable exceptions, forecasters have had a fairly dismal time over the past 18 months.

Early last year, the dollar peaked around Y115 and DM1.77. With the exception of a brief rally in November and December, it then fell steadily to touch new lows of DM1.3450 and Y79.75 in March and April this year.

Throughout this time there was never a shortage of analysts calling a turn in the dollar, and these investors who believed this advice lost money. Some of the practitioners became so confused that the head of foreign exchange at one Wall Street house was forced recently to admit [of the dollar]: "We haven't got a clue, and are positioned accordingly."

The hazards of predicting the dollar's performance have been much in evidence over the past month. In early and mid-May, it staged a strong rally, rising by around 8 per cent from the historic lows. This provided an excuse for the optimists to re-emerge. Paul Chertkow, head of global currency research at UBS in London, was one: "The dollar has turned back from the precipice of a crisis of confidence. I believe that the conditions are now in place for a dollar recovery," he said.

He also enjoyed the support of technical analysts, with Brian Marber, an independent foreign exchange consultant in London, calling a "major trend reversal" in the currency.

This rally then petered out in the last week of May, amid fears of the US economy slipping into recession. The bears were again in the ascendancy. But they hardly had time to reclaim the baton when an unexpected round of central bank support for the dollar last week gave cause for further reassessment.

If, as some believed, it testified to greater concern about the dollar on the part of the Clinton administration than previously thought, this would represent an important change in the matrix of factors determing the currency's value. The bulls were able to smile again.

Their optimism, however, lasted precisely two days. The release last Friday of a much weaker than expected June employment report in the US reinforced fears that the US economy was slipping into recession, driving the dollar back to around DM1.40 and Y84.

Against the backdrop of recession, the type of fiscal stringency being advocated by Republicans in Congress will be much harder to implement. As a result, structural economic problems, such as the US's low savings ratio, which have weighed down on the dollar will not be addressed.

Also, the prospect of falling US interest rates does not provide much incentive to hold dollars. As a result, talk of a dollar recovery looks a lot flimsier than it did only a week ago.

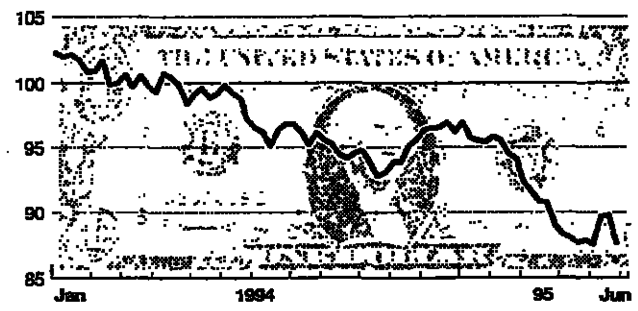
The upshot of all of this, unsurprisingly, is a mixture of pessimism and confusion. While any recovery in the dollar certainly looks further off, it is still the case that most investors want to believe that a turn in the dollar is only a matter of time. Notwithstanding the wounds of the recent past, there appears, on the part of investors, an almost pyschological need to believe in a stronger dollar. Accordingly, when it is weak for a protracted period, as it has been, this tends to be tolerated, rather than accepted. Bulls may become bears, but, more likely, they simply go into hibernation and emerge again when they scent a dollar rally.

Understandably, given recent experience, there is a great deal of caution around. What can be said with confidence, is that a significant move is more likely on the upside than the downside. Although there are a number of analysts who still think one further sharp fall is possible, there are few, if any, who think the dollar can repeat the sort of falls it made in the first quarter.

The mood of the market has also changed. By April, sentiment had reached an absolute nadir. Everybody wanted to sell dollars, and there were few buyers. Now the market has more of a two-way feel to it, though there is still not much evidence of dollar buying from long-term investors.

Dollar

Trade-weighted Index (1990=100)



Source: FT Graphite

Whether economic fundamentals justify a rally is another matter. In addressing this question, a few preliminary points should be made. First, the dollar rate is by no means set on an axis between Wall Street and Capitol Hill. In the short term, events in Tokyo or Frankfurt can be just as important in setting the exchange rate.

Second, fundamentals, or notions of "fair value", can be of little predictive value since currencies can trade away from them for protracted periods. Finally, time-frame is all important. While many analysts expect a dollar rally in the short to medium term, there is little dispute that the long-term decline of the currency (from Y360 and DM3.70 in 1970) is set to continue, in parallel with the growing economic power of Germany, Japan and other developing countries, especially in south-east Asia.

As comments elsewhere on this page make clear, the dollar seems unlikely to make much headway against the yen before the trade gap starts to shrink, and Japanese investors are sufficiently confident to return to US asset markets.

Tough budgetary action in the US could help change the market's view on the dollar as a store of value.

But the proximity of presidential elections, and the backdrop of a slowing economy, make decisive progress on this question far from a foregone conclusion.

Growth is the other key issue. If, as some predict, an improved US trade performance provides the impetus for faster growth in the second half of the year, and the German economy slows more than expected, interest rate differentials could move in the dollar's favour. An improvement in the US's trade account would also help the dollar.

Typically, the qualifications outnumber the facts. Forecasting, meanhwile, remains as thankless a task as ever.

FOREIGN EXCHANGE 4

STERLING: *it is described by one analyst as the European dollar*

Dogged by political doubts

Spare a thought for the Bank of England, the guardian of Britain's currency. It has recently had to cope with a combination of events which would be enough *to leave anybody baffled.*

On the one hand, it is widely acknowledged that the economy is performing as well as it has done at any stage in the past 40 years. Growth has been proceeding at a healthy clip, unemployment is falling, inflation is constrained and interest rates remain at a fairly low level. If sustainable growth with low inflation is the ideal, this cannot be far short of it.

On the other hand, the pound fell to a historic low of 2.1765 against the D-Mark on May 9 – a decline of 11.5 per cent from the start of the year – with the trade weighted index also reaching a new low of 82.7. Galling for the market was that this took place without a sterling crisis. Certainly, there were times in recent months when the City's desire for a crisis was palpable, if *only to satisfy its deep-seated* pessimism about the recidivist instincts of the UK's economic managers.

Alas, it was not to be. Sterling reached these new lows with a whimper, not a bang. There was barely a day when the pound was the main focus of market attention. As ever, it was caught up in the backwash of the sharp moves generated in the first quarter by the dollar and the D-Mark. Indeed, well over 90 per cent of sterling's movement against the D-Mark can be explained in terms of what is happening to the $/D-Mark rate.

Avinash Persaud, currency strategist at J P Morgan in London, describes sterling as the "European dollar. It is highly sensitive to developments with the dollar, and this confuses those who focus on domestic issues".

Unfortunately for the Bank, inasmuch as sterling does enjoy a life of its own, it appears to be largely a political one. Certainly, for most of the past year it has been dogged by political uncertainty, meaning either that the market is worried about the survival of the prime minister or the Conservative party, *or the prospect of* a Labour government.

More recently, a weakening of the UK's current account performance, and renewed fears about the politicisation of monetary policy, have not helped sterling. Although the former trend is not severe, the latter will continue to dog sterling from now until the general election.

The market is likely to start from the jaundiced perspective that anything Kenneth Clarke, the chancellor, *does will be* assumed to be for short-term political advantage, until he *proves otherwise. That was* certainly the way the City responded to his decision in May not to raise interest rates.

This approach may not be fair, but it is certainly real. Says Mr Persaud: "The market is sceptical about how focused the politicians will be on getting the economics right as opposed to the politics."

Steve Hannah, head of research *at IBJ International,* describes sterling as a "middle tier" risk market – not as bad *as Italy, Spain or Sweden,* but not in the first division, with Germany, the Netherlands or Switzerland. He says there is evidence of foreign buyers returning to the market "on the basis that the bearishness has been overdone a bit".

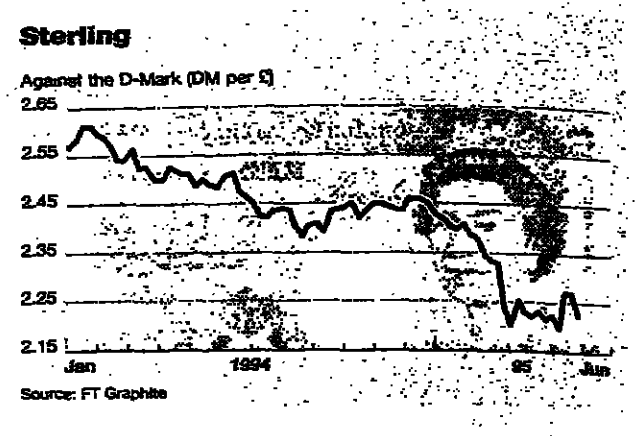
Looking ahead, aside from how *the dollar performs, and* how responsible the government is in the run-up to the *elections, the great imponderable* for the market is what a Labour government might *mean.* Whatever the detail, "the new Labour party" certainly promises to be a more *market-friendly* beast than any previous incarnation.

Mr Hannah says: "The market accepts that there has been an enormous degree of convergence on economic policies." He is not predicting a seamless transition, but adds: "I don't think anybody would want to speculate now on an enormous downward dislocation for sterling should Labour win." That, at least, should give the Bank some cause for comfort.

Philip Gawith

Sterling

Against the D-Mark (DM per £)



Source: FT Graphite

Andrew Fisher *tracks the extraordinary rise of the D-Mark*

Europe's safe-haven currency

The D-Mark is the currency that many non-Germans covet and most Germans are reluctant to give up. If European monetary union occurs, that dilemma will strike home with full force. Both foreign and domestic holders of D-Marks will have to be convinced the new European currency will be every bit as solid as the German currency.

Emu is still some way off and not everyone is convinced that it will take place. Until it does, the D-Mark will continue to be a focus of close attention in world financial markets. Its recent rise has been extraordinary – up 16.5 per cent against the dollar in the first quarter *of 1995 against the same* period of 1994 and up 6.5 per cent against the weighted *average of the currencies of* Germany's 18 main trading partners.

This helps German inflation but hampers exporters. It also highlights the country's high costs, with the Bundesbank pointing out in its annual report that labour and management had not reacted sufficiently to this. Pay deals had not taken account of the D-Mark's "most recent dramatic appreciation", it said. Thus it warned: "Germany's overall competitive position has worsened."

As the recent intervention by central banks to shore up the dollar shows, currency trends can change. This year, the US currency has been above DM1.50 and below DM1.40. Economists feel it should be at least DM1.60 on purchasing power comparisons. Concern over economic trends and fiscal policies lies behind the perception of the D-Mark as a "safe-haven" currency, with the Italian lira, Spanish peseta and Portuguese escudo all falling sharply against the German currency this year.

Since Britain's humiliating exit from the European exchange rate mechanism (ERM) in September 1992, the pound has fallen by 24 per cent against the D-Mark. In fact, sterling's performance over the years shows how relentless the D-Mark's progress has been. In the early 1960s, the pound was worth more than DM11 and has since fallen to around DM2.20.

The D-Mark was born in 1948 when the currency was reformed to bring stability to Germany's chaotic post-war financial situation. With the Bundesbank created to maintain monetary order, and not afraid to cross swords with the Bonn government, the German currency has climbed steadily.

As the economy has expanded and its citizens have prospered, the currency has benefited. The D-Mark is now the second most important world currency after the dollar, accounting for 16 per cent of monetary reserves held by world central banks.

Foreign investors' confidence in the currency led to net capital inflows of some DM57bn into Germany last year.

Any suggestion that Germany's prized stability, economic or political, is under threat would clearly jeopardise the D-Mark's strength. The country has weathered the strains of unification, though at great cost, and a debate is now under way over removing some of the structural rigidities which keep unemployment high and inflate government spending.

If the centre-right government of Chancellor Helmut Kohl looked like being replaced by a social democrat-green coalition – a subject of discussion after recent state elections – financial markets would certainly take it out on the D-Mark. But for the moment, the currency remains unassailed.

For the German people, it is proof of stability in a century of world wars and hyperinflation. "The success story of the D-Mark forms a large part of the Germans' self-image, which – as is well known abroad - is constantly threatened by 'German angst'," said Mr Jürgen Stark, state secretary at the finance ministry in London recently. He supports Emu, but recognises that selling it to the Germans will not be easy. They love their D-Mark.

EXOTIC CURRENCIES: **Philip Gawith** and **Lisa Bransten** report

Tequila hangover still lingers

When central bank governors from several Asia-Pacific countries met last month in Manila to discuss the establishment of a foreign exchange stabilisation fund, it is a fair bet that tequila did not feature as their favourite after-hours tipple.

Their very reason for meeting had its roots in the so-called "Tequila effect", earlier in the year, when investment funds took flight from their countries as a result of general disenchantment with emerging markets in the wake of the Mexican crisis which developed in late December.

It was an educative period for all concerned. Investors who all ran for the door at the same time were soon reminded that the capital markets of developing countries are subject to much more dramatic swings in prices than those of developed nations. Countries which had enjoyed seeing capital flow into their markets became aware that such capital can leave as quickly as it came, with potentially disruptive side-effects.

Five months after the crisis began, a measure of stability has returned to Mexico. After weakening to around 7.5 pesos to the dollar, from a pre-devaluation level of 3.46, the currency has recovered to trade around 6 pesos to the dollar. Fears of the government suspending convertibility have abated, with the premium paid for convertibility insurance on transactions falling to around 3 per cent from 20 per cent at the height of the crisis.

But even as trading in pesos approaches normality and economies begin to recover from the tequila hangover, the fall-out is still evident. According to Pablo Septien, a peso trader at Merrill Lynch in New York, volume on the spot market has fallen sharply from pre-devaluation levels so that a $50-$100m order can now move the market in a way which formerly required an amount closer to $300m.

Many expect that new developments in the peso market will add stability. In the wake of the devaluation, for example, the Mexican government began permitting Mexican banks to trade forward contracts for pesos, although there has not been much activity yet. Also, in late April peso futures and options contracts began trading on the Chicago Mercantile Exchange.

It is too soon to measure the effect of these new instruments, says Gustavo Dominguez, who runs Latin American local markets for Chase Manhattan in New York, but ultimately they should reduce volatility. "Any market around which you put hedging instruments is going to be more stable," he says.

One of the most basic lessons to emerge from Mexico is that a bland lumping together of all emerging markets in an undifferentiated bundle is inappropriate. In Chile, for example, where export growth has generated healthy levels of foreign exchange, the currency is now stronger than it was in early December. It continues to attract portfolio and direct investment by foreigners. Peru and Brazil, by contrast, are having to face the problem of overvalued currencies.

Some analysts would link the stability of the Chilean peso to the fact that the country still implements exchange controls. This analysis would certainly meet with some sympathy in Asia, where there is still considerable resistance to the internationalisation of currencies that accompanies foreign investment.

While Asian markets may have shaken off the effects of Mexico more quickly than Latin America – the economic fundamentals of the two regions are in any event very different – the gathering of central bankers in Manila testifies to continued concern about these issues. It was the third time this year such a fund has been discussed. The Asean countries were represented at the meeting – Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand – as well as Taiwan, South Korea and other smaller, mostly island, nations.

The practicalities of such a fund make its realisation unlikely. It also raises problems of moral hazard – a country could exploit the fund's safety-net features to pursue unsound economic policies. Chris Tinker, chief economist at Standard Chartered in London, says: "It is the pipe dream of central banks which would like to have more control over the market."

If central banks are having to come to terms with the limits of their powers, investors are also learning about currency risks. As Mr Tinker notes, for dollar-based investors (who account for most emerging market flows), there was never perceived to be much currency risk in these markets, many of which were linked to the dollar. Accordingly, investments were often unhedged. Mexico, however, put paid to that, and there is now increased focus on currency risk.

In managing their currencies, Asian central banks were, until recently, trying to balance the desire to keep their exports competitive, with the need to avoid importing inflation through an undervalued currency. Competitiveness and inflation were the key issues.

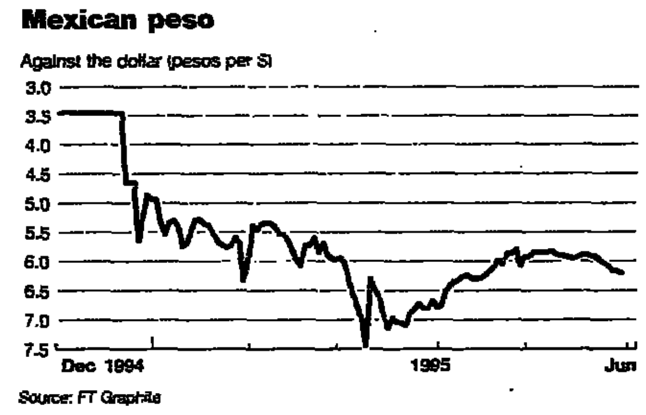
In 1995, though, a third factor has been added to the list – the cost of debt. A lot of Asian countries still have most of their revenues denominated in dollars, while a large portion of their borrowings, or debt, is denominated in yen. A lot of finance and infrastructural development is provided by Japan. The sharp rise in the yen this year, however, has exposed some painful mismatches between dollar assets and yen liabilities.

Many Asian central banks had, over the years, built up very large dollar reserve holdings, based on export success. This year has been notable for them having to think about shifting more of these reserves into other currencies, especially the yen.

Less discussed than Latin America and Asia are the developing markets in eastern Europe where exchange rate developments have tended to be very positive, particularly in the Czech Republic, Hungary and Poland. In part, this reflects economic success, reflected in higher growth, lower inflation and improved external balances, but it is also a function of the extent to which these exchange rates remain protected.

Mexican peso

Against the dollar (pesos per $)



Source: FT Graphite

SINGAPORE: it is rapidly closing the gap on Tokyo, says **Kieran Cooke**

Rising hub of global trading

Singapore strives to be top, or near the top, in various sectors. In less than 30 years the island republic has been transformed from a run-down trading post into a sparklingly clean and efficient metropolis. With a population of under 3m Singapore is today the world's leading producer of computer disk drives. Its container port vies with Hong Kong as the world's busiest. Its airport is consistently voted the world's most efficient.

The growth of Singapore's financial services industry has been no less impressive. The island republic's planners decided to encourage the development of a financial services sector in the late 1960s. Financial services, excluding business transactions, now contribute 13 per cent of national GDP. Today, Singapore is one of the global hubs of the industry: *soon after the dealing* rooms and computer terminals of Zurich, London and New York *are closed, the south-east* Asia markets – dominated by Tokyo, Singapore and Hong Kong – start a new day.

Foreign exchange dealing has been the fastest growing segment of Singapore's financial services sector. When the Bank of International Settlements produced its last league table of the global forex industry in 1992 Singapore was ranked the fourth busiest centre in the world, behind London, New York and Tokyo but ahead of Zurich and its regional *rival, Hong Kong.* Monetary officials and locally-based forex dealers estimate that Singapore has closed the gap considerbly on Tokyo over the past two years.

The Monetary Authority of Singapore (MAS), the island republic's de facto central bank, says forex trading volumes have risen from a daily average of US$81bn in 1992 to US$100bn daily last year. The MAS says that average daily volumes for the first quarter of this year, computed on an annual basis, *rose to* US$117.6bn. In 1992, Tokyo's average daily forex turnover was US$128bn.

Tokyo still dominates the yen trading market. But in every other currency Singapore is well ahead, and is particularly favoured among D-Mark traders. "We have far more depth and breadth than Tokyo," says a monetary official. "We are much more diversified. That's a big attraction for the banks: they can come here and deal in a wide range of currencies and not, as in Tokyo, be limited mainly to yen trading."

There are now 210 banks and merchant banks in Singapore – the bulk of them foreign institutions. Officials say a critical mass has been developed: Singapore anticipated this influx by putting large resources into developing the expertise necessary for forex trading. *Institutes, colleges and universities* all run courses aimed at catering to the ever increasing *needs of the forex market.* The Union Bank of Switzerland, Swiss Banking Corporation, Citibank, Barclays and many others have their regional forex headquarters in Singapore. Most have locals rather than expatriates in charge of their forex operations.

"Perhaps it's Singapore's history as an entrepôt that makes people here seem more adept at forex dealing than their *counterparts in Tokyo,"* says a banker who has also worked in Tokyo. "A lot of expertise has been built up *here over the* years." Foreign banks also say that though operating costs in Singapore are rising fast they are still well below those of Tokyo. An added bonus is the availability of staff *speaking* English.

When forex dealing started in the 1970s the hundreds of foreign companies and multinationals which crowded into Singapore to set up manufac*turing operations were* an important part of the market. Foreign companies hedged their currency risks through local dealing: while such activities still form part of the forex industry the main spur to growth has been the fast economic expansion of the south-east Asia region.

Singapore's economy has grown by between 6 and 10 per cent in each of the last 10 years. The economy in neighbouring Malaysia has grown by more than 8 per cent in each of the last seven years. Thailand has had similar growth while Indonesia and the Philippines have joined the path of fast-track development.

The amount of trade between the dynamic economies of south-east Asia and Europe, North America and Japan has multiplied several times in recent years. There has also been a significant growth in inter-regional trade. A greater interest in regional currencies has developed in parallel to south-east Asia's rise as one of the world's *most significant* trading regions.

It's estimated that US$/DM and US$/yen *account for more* than 50 per cent of forex trading in Singapore. Sterling makes up about 10 per cent while the Swiss franc is about 8 per cent and the French Franc 2 per cent. A substantial portion of the remainder is taken up by trading in regional or so-called "exotic" currencies – the *Malaysian* ringgit, the Thai baht, the Indonesian rupiah, plus Australian and *New Zealand dollars.*

"There's no doubt Singapore leads the field in regional cur*rencies," says one local forex* dealer. "A lot of Malaysian ringgit is being traded in London and New York. *But daily* ringgit trading volumes in Singapore were up to between US$3bn and US$4bn on the *spot and forward markets* at one stage late last year. Singapore is also the centre for trad*ing in the other regional cur*rencies, particularly the Thai baht. The foreign banks are *really gearing up their regional* forex trading."

The attractions of currencies *like the Malaysian ringgit* are volatility, underpinned by sound economic fundamentals. The ringgit has see-sawed from M$2.50 *to the US$ to nearly* M$2.80 and back to under M$2.50 over the past 18 months. Much of the reason for that volatility was initially caused by Bank Negara, Malaysia's central bank.

At the end of 1993, Bank Negara bought in large quantities of US dollars to revalue its reserves and reduce year-end book losses caused by the bank's own multibillion-dollar speculation on the forex markets. The result was a sharp fall in the ringgit: the world's speculators saw an opportunity and rushed in to buy the Malaysian currency.

Bank Negara, alarmed at the inflationary impact of large amounts *of speculative funds* washing into the country, then introduced a series of restric*tions on ringgit holdings.* Traders and investors wanting to hedge their ringgit investments had to move elsewhere. Singapore, due to its status as a financial centre and its market knowledge of the ringgit, was the natural choice: Singapore's ringgit trading volumes went up five times in a year. Though volumes have dropped back in recent months Singapore's forex dealers see a steady growth in ringgit *and* other regional trading over the next few years.

"All the foreign banks *are* stepping up their regional currency trading here," says a trader at one of Singapore's biggest forex operations.

هكذا من الأصل

RETAIL CURRENCY: **Motoko Rich** *discusses the traveller's dilemma*

Counting the cost abroad

Every traveller abroad is familiar with the pain – or joy – of calculating the cost of a cup of coffee or an hotel room in a foreign currency.

In some cases, these mental calculations may restrain the traveller's spending habits. In others, the power of the traveller's domestic currency can prompt a spending spree.

Recent currency volatility has caused some fluctuations in the world travel industry. From the UK, for example, the recent strength of the pound against the Italian lira and the Spanish peseta has made Italy and Spain more popular destinations for holidaying Britons.

Time Off, a travel agency in London, said it had noticed the trend over Easter, when travellers seemed to favour these countries over France and Holland, more traditional destinations for spring get-aways. "Italy and Spain are attractive options because the pound is doing so badly against other currencies, particularly the French franc," said the agency. "So France is suffering a lot at the moment."

The southern European countries are the most popular holiday destinations this year

With the fortunes of the pound so closely tied to those of the dollar, it is not surprising to hear that US travellers are opting for the same destinations as the British. "The most popular destinations this year are the southern European countries because there the currencies are not so strong," said Ms Frederique Raeymaekers, chairman of the European Travel Commission in New York City. "That is where the best bargains are."

In the run-up to the summer holidays, the ETC forecasts that more than last year's record 8.3m US residents will visit Europe.

According to an ETC survey of transatlantic airlines, reservations from the US are up, particularly to the UK, France, Italy, Spain, Ireland and Greece.

Perillo Tours, a US tour operator which caters for tourists going to Europe, has reported a 15 per cent rise in bookings during 1995. Rail Europe, which sells rail passes and tickets to 10 per cent of the American travellers who visit Europe, has reported a 30 per cent rise in business to the end of April.

Likewise, travel to the US has also increased on the back of currency movements. In New York, for example, tourism to the state is up 7 per cent in the first quarter of 1995. "In parts of Europe and Japan the dollar is favourable," said Bern Rotman, of the New York state department of economic development, which runs the "I Love New York" campaign. The number of foreigners visiting New York City was up significantly and it was clearly due in part to currency values, he said.

While favourable currency movements may encourage customers to choose a particular place, seasonal travel habits can change the popularity of particular currencies. According to Derek Coles, head of foreign exchange at Barclays Bank, UK demand for the Austrian schilling increases in the winter skiing season. The Australian dollar also becomes one of the top 10 best-selling currencies in the UK during the winter, when travellers from the northern hemisphere seek to escape the cold.

Few travellers anticipate currency movements by purchasing the money in advance. "In the retail market people leave it to the last minute to buy their currency," said Ted Keeble, head of foreign exchange at American Express. "We do not see people rushing in to buy any large amounts."

The exception, however, was Germany: American Express saw German customers buying up dollars when the greenback was particularly weak against the D-Mark in March this year. "We probably doubled what we would have sold in Germany in that time of year," said Mr Keeble. "The British public do not buy like that. We put our trust in fate."

According to the ETC's Ms Raeymaekers, American travellers adjust for currency fluctuations by cutting costs. "The American tourist knows what it is going to cost him and what he can do to get around it," she said.

Budget travel guides such as the US's Let's Go or Arthur Frommer's guides have benefited from the need for travellers to seek cheap alternatives in a country where the currency is more expensive.

"Since our guides deal with budget opportunities, they tend to do better when the dollar is weak," said Mr Frommer. "It pushes more readers towards us because they need to book themselves into modest pensiones, bed and breakfasts, and second class hotels," said Mr Frommer.

But he admitted the recent currency volatility – much of which occurred after the 1995 editions had been published – had skewed some of the prices included in the guides, especially in the "Germany on $50 a day" guide. "The 1995 edition of the German guide does not reflect the weakness of the dollar," said Mr Frommer. "I think we would have changed the title to Germany on $55 a day, or maybe even $60."

A similar, but more dramatic problem occurred at the Rough Guide, the UK budget travel series, after the 50 per cent devaluation of the CFA franc, the currency of Francophone West Africa, in February 1994. According to Richard Trillo, Africa editor, prices at up-market hotels and restaurants sky-rocketed overnight. "The prices at least doubled. A hotel that would have been £50 cost £100. We had to adjust all our guides to these new prices."

Few travellers anticipate currency movements by purchasing the money in advance

While travel guide writers, travel agents, and tourist bureaux pay close attention to foreign exchange, it is a low priority for most customers. According to a survey by ARTAC, a UK consortium of independent travel agents, exchange rates were the smallest concern for travellers.

"When people pick their holiday they have planned and saved for months," said Alison Eggison of Abercrombie and Kent, a London travel agent. David Gladwin, director of dealing operations at Thomas Cook, the travel and foreign exchange business, said: "At the end of the day people say 'I have got this much money' and do not see foreign exchange affecting their plans."

ELECTRONIC BROKING

The voice of experience is beginning to fade away

One of the outstanding features of the past year has been the onward march of electronic broking, with the EBS *consortium*, in which many of the largest foreign exchange banks have a stake, making particularly significant gains. Peter Bartko, EBS's chairman, claims: "We are probably the fourth biggest spot broker in London."

This, in turn, has posed some difficult questions for the voice-broking community. Their resilience is not in doubt. They have survived and flourished despite earlier threats such as the development of telex facilities, international direct dialling and the development of the interbank market. But the recent announcement of lay-offs is evidence of signs of strain.

EBS's growth has been impressive by any standard. It has grown from a 4.1 per cent share of the London broking market in January 1994 to 17 per cent in March 1995. The accepted rule of thumb is that the broking community, in turn, accounts for around one third of spot foreign exchange trading in London (with the top three, Tullets, Marshall and Harlow, accounting for 60-70 per cent of the broking business).

Market penetration is also impressive. The number of clients has grown from 144 at the end of 1993 to 278 by mid-May, with the number of work stations growing over the same period to 928.

The other significant presence in electronic broking is Reuters. Nimex, which is backed by the Dow-Jones group, is also in the market, although it is limited mostly to Asia. Nimex is believed to have around 20 per cent of the dollar/yen market in Tokyo.

In terms of market share, EBS appears to have stolen a march on Reuters. A Reuters spokesman says they have about 12.5 per cent of the London broker market. The two businesses are not identical. Reuters tends to do more smaller trades than EBS, so whereas the average Reuters deal is around $1.5m, the figure for EBS is probably closer to $4m. Reuters also has a more diverse business. Around 80 per cent of EBS business is in $/DM and DM/FFr (with around two-thirds of this in $/DM). Reuters has a slightly broader spread, being slightly less dependent on $/DM, and having a reasonable presence in $/yen, DM/Lira and $/Swiss franc.

Peter Bartko: "we are probably London's fourth biggest spot broker"

Mr Bartko is quick to deny any imperialistic ambitions – "I don't think I am going to put the (voice) brokers out of business" – but speaks with the clear conviction of one who feels he has time on his side.

Brokers, of course, are not taking all of this lying down. One way of keeping the banks' business is through heavy discounting with large banks reputed to be able to get discounts of up to 70 per cent, if they put sufficient volume through the brokers. Other responses include backing up voice brokers with a screen displayed price. Yet another response to competition has been to improve confirmation procedures, which currently take a few hours, down to around five minutes. Electronic systems can confirm within a minute.

There has also been some tough talk. The head of one of London's large brokers said recently: "I do not see electronic broking making such an inroad into traditional voice broking that it will harm us in any way." It is difficult to square that view with recent lay-off announcements: 40 broking jobs gone at Exco, 48 at Prebon Yamane, and Martin Bierbaum also admitting to lay-offs. All cited a downturn in market activity, but it is difficult to believe there is not an electronic broking element in all of it too.

Not all EBS's success has come at the expense of brokers either. Smaller banks have often tended to deal directly with each other, or with large banks when small amounts are involved. (Historically, the larger brokers have often refused to deal in lots smaller than $5m). EBS, however, has eaten into this market because by always having a price on the screen the market has become more transparent, and smaller operators often prefer simply to hit the screen price.

EBS has been most successful in the D-Mark/French franc cross. Mr Bartko contends: "We are probably the best DM/FFr broker in the world today. The EBS price has become the industry price. To be active you have to know that price, and you also need access to liquidity at that price." Unsurprisingly, banks active in this market who previously adopted a disdainful attitude to EBS are now singing a different tune.

Mr Bartko believes that EBS is arguably the best also in D-Mark/Swiss franc, and says that the EBS prices in $/D-Mark also leads the market in some trading centres.

Price and liquidity are the crucial issues for brokers: prices must be ahead of, or in line with, the market. If they are behind, the customer suffers. Also, if a broker is the source of liquidity, then others will want to do business with him. It is by these standards that EBS is starting to succeed: "It is the quality and depth of liquidity now that draws people to the service," says Mr Bartko. Certainly, in some currency pairs, EBS has also overcome the early criticism that its prices tended to lag the market.

While progress has been significant, EBS still faces many challenges, most notably, making the weak currency pairs strong. "To have three successful currency pairs out of 12 is not a high percentage," says Mr Bartko. Initiatives under way to improve performance include introducing a new screen which will show not only the best price, but the best price in a regular size. The system will also be modified so that more than one currency pair can be traded simultaneously. At the moment only one price is available on the screen at any one time.

In terms of its original mandate – to provide competition to Reuters, which had 50 per cent market share through its 200-1 and conversational direct dealing service – EBS has succeeded admirably. Now the challenge is to develop a successful brokerage business.

Although both Reuters and EBS can cite impressive volume growth, it is not clear whether either is profitable. Their reluctance to answer inquiries on this point provides at least some comfort for the voice brokers.

Philip Gawith

Profile of a fund manager: ADAM GRESHIN

Dollar teaches a hard lesson

What most mutual fund shareholders want, of course, are the highest returns for their investments and that may mean hedging a global bond fund against currency risk. But contrary to what the name implies, hedging does not always guard against risk.

It is not a lesson lost on Adam Greshin who manages the portfolios of several global bond funds for Scudder, Stevens & Clark, the US mutual fund company.

Last year Scudder's International Bond Fund ended with a negative total return of 8.6 per cent in large part because Mr Greshin bet on the dollar to rise and hedged up to 90 per cent of the fund – which holds securities denominated in dollars, D-Marks, yen, Swedish kroner and New Zealand dollars among others – back into dollars.

It was a strategy that had worked well in the past. Before 1994 the fund beat its benchmark – the unhedged Salomon Brothers Non-US Dollar World Government Bond Index – every year since 1988. Last year the unhedged index returned nearly 6 per cent.

"Two years ago our institutional investors loved us. We crushed the index in 1993 because the dollar was well-bid, the bond markets were roaring. If you lost money in 1993 you were brain dead," he says.

As an example of the benefits hedging can create he cites the market in Italian bonds. In 1993, his investment in those bonds returned nearly 32 per cent in lira terms. In dollar terms that translated into a return of just 14 per cent, but Mr Greshin had taken steps to guard against weakness in the lira and was therefore able to capture the full underlying benefit of the bonds.

When the fund manager is on the right side of the currency bet the strategy can be extremely popular. But, as he found out, the strategy can quickly become unpopular when the manager bets the wrong way.

Last year investors began taking issue with his strategy. "Clients began to question whether active management of currency was appropriate because many investors got it wrong and they had hired you to have a lot of currency exposure."

When the fund was established in 1988 there was little choice but to expose investors to the full currency risk because there was little available in terms of options on most currencies. "We purchased the bonds and the currency and let the market go where it went," Mr Greshin says.

'I have to be careful not to be on the wrong side of a trade that everyone is piling into'

Since January 1991 the number of international bond funds in the US has risen from 38 with total net assets of $14.bn to 144 with $32bn in total net assets in March this year, according to the Investment Company Institute, the trade group of the mutual fund industry. Meanwhile, the availability of currency options and derivatives grew dramatically as banks jumped into the surging market in foreign exchange trading.

Mutual fund managers have become important enough as a client base in recent years to merit the development of special types of products and information to meet their growing needs at some banks.

But while the number of players hoping to take advantage of sophisticated currency markets grows, the market is plagued by the evaporation of liquidity seen last year as fewer banks were willing to make markets in currencies more exotic than the Japanese yen and the D-Mark.

So the biggest effect of dealing liquidity for Mr Greshin has been that he has to watch the currency markets more closely. "I have to be careful not to be on the wrong side of a trade that everyone is piling into."

That is just one of the reasons he keeps a close eye on global currencies as well as bonds, making all the final decisions about where to invest and where to hedge. He has avoided the strategy known as "currency overlay" in which the fund manager makes bets based purely on the value of the underlying security and turns over the job of hedging decisions to a currency specialist.

"In my opinion it is a failing strategy to have someone separately manage bonds and currencies because for a global bond fund currencies are a very important part of the decision (about what to buy)."

And what decisions is he making now? Well, having learned his lesson last year, he is holding fewer dollars. About 60 per cent of his portfolio is hedged, and so far this year the return is 2.86 per cent.

"I don't know what they [the investors] want," he says, "but I know that my mandate is to provide currency for them. We compare ourselves to a benchmark and it is a currency benchmark."

Lisa Bransten

Adam Greshin: "If you lost money in 1993 you were brain dead"

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FINANCIAL TIMES SURVEY

The banking sector is racing to carve out a new role for itself. Page 2

LEBANON

Lasting peace is crucial to the rebirth of a market economy. Page 4

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Rafik Hariri: reconstruction is the principal goal — Tony Andrews

National consensus remains elusive

While work is starting in earnest on rebuilding the war-torn country, a recent cabinet upheaval has highlighted the extent to which the nation is still politically divided, says David Gardner

Lebanon, somewhat to its surprise, is still a country. Nearly five years after the end of 17 years of tribal warfare between and within Lebanon's 17 minority communities it is, moreover, a country which could have a bright future. Success depends on whether it can build a political consensus across the sectarian fault-lines inside Lebanon, and whether a Middle East within tantalising reach of peace embarks on detente and development, allowing the Lebanese to reclaim their role as the interface between the region and the west.

The 1975-90 civil war wreaked such destruction on Lebanon that it came under the creeping hegemony of Syria and lost control over part of its southern territory to Israel. Today's reconstituted central government makes no bones about it. "We lost all our sovereignty; all our independence, all our institutions," says Fares Bouez, the Lebanese foreign minister, who in January 1991 took possession of an office with no ceiling, no chairs, no electricity and overrun by rats – very much the state of the nation at the time.

Central Beirut still looks skeletal, but it vibrates with new energy and purpose. The daily explosions are caused not by militias but by demolition crews working for Solidere, the $2bn private company which has started recreating a financial and commercial centre for the devastated capital. The government of prime minister Rafiq Hariri has made reconstruction its principal goal, aiming to channel at least $18bn into rebuilding the shattered infrastructure and relaunching the economy under the Horizon 2000 plan.

Reconstruction alone, the government believes, should provide growth of about 8 per cent annually into the next century. By then it hopes Lebanon will be earning a handsome living as a services entrepot for a region reshaped by peace, in particular as a sophisticated capital market channelling funds into the Middle East.

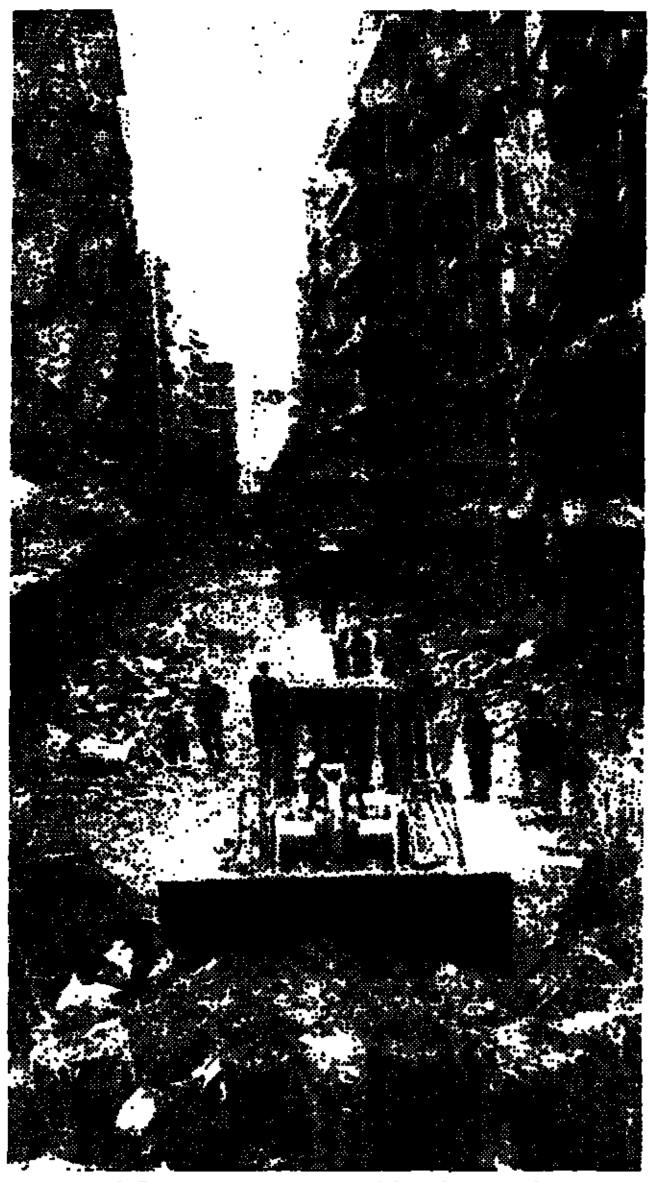
Mr Hariri, a businessman with a reputed fortune of $4bn amassed mainly in Saudi Arabia, emerged as a lead player in Lebanon's future during the negotiation of the 1989 Taif Agreement, which put an end to the war. He took over as prime minister in October 1992, when it had become clear that the Taif deal had failed to halt Lebanon's drift.

With Syrian backing, Mr Hariri has given Lebanon security. All but one of the civil war militias have been disbanded, replaced by a 53,000-strong national army. The Lebanese pound, which lost 55 per cent of its value in the eight months before he took over, has since appreciated by 25 per cent – albeit held by high interest rates which are crowding out investment. Last year, the Lebanese diaspora repatriated $6.5bn, covering the flood of imports needed for reconstruction.

But if the country is being physically rebuilt, events of the past month have highlighted how politically unreconstructed Lebanon remains. On May 19, Mr Hariri submitted his own and his cabinet's resignation, frustrated by warlords and traditional clan and sect leaders in government and parliament who have obstructed his reforms and reconstruction. After intense consultations with Syrian president Hafez al-Assad and his son Bashar, Mr Hariri re-emerged a week later at the head of a cabinet half stocked with technocrats and loyalists.

The episode underlined the extent to which Lebanon's traditional political class needs Syria to arbitrate its inter-confessional rivalries, and Mr Hariri has still to negotiate policy with the former militia leaders and barons of the mountainous country's neo-feudal cantons. Getting 14 out of 28 technocrats into cabinet can be seen as a boost for Mr Hariri. But that, and his attempts to place his associates in rival ministries, is largely a substitute for failure to reform the civil service, which the barons have succeeded in keeping staffed on a quota basis, retaining their own powers of patronage.

The prime minister has made little attempt to remould the pre-war confessional system, under which primary loyalty is to religion, sect and clan. Addressing the task of reconstruction, he is ignoring the challenge of national reconciliation.



Cleaning up in Beirut: new energy is being injected into the city — Reuter

"We ended a war," says one government adviser, "but we are not building a peace. There is a national consensus that we should live together, but that consensus is in society, it has not reached the political class."

The Taif accords are part of the problem. They rebalance power between the country's main groupings, taking from the pre-war executive presidency through which the Maronite Christians had dominated Lebanon, and giving to a Sunni Moslem premier (Mr Hariri), and a Shi'ite Moslem speaker of parliament, the formidable former Shia militia leader, Nabih Berri. But three more or less equal "presidents" has created institutional gridlock, as well as reconsecrating confessionalism.

No one is articulating a national vision for the Lebanon, or attempting to surmount the colliding historical myths that most leaders cling to in order to keep inter-communal hostility bubbling and themselves in power. Maronite leaders, for instance, having failed to secure their paramount position by war, are stoking fears that Christians are being eclipsed by Moslems. This message is partly self-fulfilling, since they boycotted the 1992 elections, making the same mistake the Sunnites made after the French established Lebanon as a separate entity from Syria in the 1920s. Maronite focus is narrowed on the succession this November to President Elias Hrawi, rather than on reorganising their national representation for elections next year.

The Maronite Patriarch, however, Nasrallah Sfeir, may shortly break this mould by calling publicly for inter-confessional parties. "We need to form parties, and a party of Christians and Moslems together in one national party," he said.

One group unlikely to join is Hizbollah, the Shia fundamentalist group which keeps its militia in the field against Israel's southern "security zone", with the blessing of Beirut, political support from Damascus and finance from Tehran. But from kidnapping and suicide bombing, Hizbollah has reinvented itself as a coherent social force, enjoying cross-community prestige for its resistance to Israeli occupation. It participates assiduously in parliament, and is showing signs of expecting to be reined in by Syria, if the Syrian-Israeli peace negotiations resuming this month lead to a deal.

Hizbollah's pull also comes from its ability to provide a welfare network for Shi'ites, who make up a large part of the estimated 30 per cent of Lebanese living below the poverty line. Wealth disparity is not high on the government's agenda. "If we commit the error of worrying about (wealth) distribution before we reconstruct, we will fail," says a senior finance ministry official.

Since the war, minimum wages have risen from $18 to $150 a month, but the Consultation and Research Institute, which does studies for the World Bank, reckons a family of five needs $720 a month to stay above the poverty line. The fiscal regime, moreover, is regressive, with more than 60 per cent of revenue coming from indirect taxes. The issue goes beyond the contrast between the dense clusters of $1m apartments mushrooming on Beirut's Corniche, and the hovels of the Shi'ite southern suburbs. The Institute's preliminary studies also find infrastructure and schooling to be far better in areas dominated by Maronites and the Druze.

This is the pattern of uneven development which fuelled bitter sectarian war. For all that Lebanon's economic success has rested on a model of free-wheeling capitalism and minimalist government, reconstruction, even a senior central bank official admits, "has to be more broadly based and regionally fair". Mr Hariri is providing sewers and piped water, which people desperately need, but do not dream about. He has shown little inclination to appeal over the heads of warlords and barons to a population among whom support for him is largely passive, and where the commonly heard plaint is *Ayn el-Badil* – "Where is the alternative?"

Economic optimism looks at least partly justified, says **David Gardner**

Hopes rest on renovation

That the Lebanese government has as yet no means of measuring more than approximately the country's gross domestic product speaks volumes on where Lebanon's economy now finds itself. Looking back to the massive destruction of the 1975-90 civil war, a generation's achievement in building a middle-income economy was levelled. But looking forward, Lebanon in reconstruction is surging ahead at such speed that the government believes it underestimated GDP last year by about 20 per cent.

Like many of his colleagues involved in the reconstruction drive of the past three years, finance minister Fouad Saniora, is prolix in "before" and "after" snapshots. "When I arrived at the finance ministry, the main cashier did not even have a calculator," he recalls. "Now we have 200 computers." In lieu of statistics and developed macroeconomic models, *what government computers are suggesting* is a pattern of growth averaging 8 per cent well into the next century. So far, and bearing in mind that resurgent Lebanon is starting from a low base with GDP now estimated at $9.5bn and running at less than two thirds of *installed capacity, this optimism* looks partially justified.

In the 25 years preceding the civil war, Lebanon's economy, the most open in the region, grew at an annual average real rate of about 5.6 per cent, easily outstripping population growth of about 2.8 per cent. Nearly 17 years of war wiped out these gains: the Bank of Lebanon estimates average annual contractions in GDP in 1975-90 of 4 per cent.

Banque Audi, whose quarterly report provides probably the most authoritative picture of Lebanon's economy, reckons *that growth last year was 8.5* per cent. If growth continues at this rate, it will be double the medium-term forecast for the region. These hopes rest *mainly on* Lebanon's reconstruction needs, and its ambition to reconstitute Beirut as the leading capital market for the Middle East.

Central Beirut is already being cleared by Solidere to provide a home for this new market. But the Council for Development and Reconstruction is extending its Horizon 2000 reconstruction plan to 2007. This anticipates average annual public investment of *$1.4bn at this year's prices*, with investment flows from the private sector at double this level.

The early phase of reconstruction – where the public sector is concentrating on basic infrastructure and private investors are behind a boom in the luxury real estate market – is so far proceeding at roughly this pace. Cement deliveries in the first quarter of this year were up 99.3 per cent on the same period of 1994, according to Banque Audi.

In balance of payments terms, the repatriation last year of $6.5bn of Lebanese capital held abroad amply covered a $5.4bn trade deficit, caused largely by imports for reconstruction. But a significant financing gap is beginning to open up, which on government forecasts will require Lebanon to double its stock of domestic and foreign debt over the next five years, from about 45 to 95 per cent of GDP.

The stability of the pound is a touchstone of confidence in Lebanon

While that looks manageable, the rate of expansion of the budget deficit does not. Without an accurate measure of GDP, Lebanon calculates its deficit as a proportion of revenue. This ratio has been rising exponentially: 40 per cent in 1993, 56 per cent last year, and in the first quarter of 1995, 52 per cent, against a year-end target of 44 per cent now looking more likely to be 60 per cent.

This is hardly surprising in a country which lost control of its tax base, is in the midst of a tax reform and has to bear high reconstruction costs as well as one-off costs such as the disbandment of a dozen militias and the creation of a national army.

But the spending drift has high costs, particularly when allied to high interest rates intended to anchor a stable exchange rate, leading together to a crowding out of private investment. The budget deficit and persistent political uncertainty since last December over the survival of the Hariri government, moreover, have led to pressure on the Lebanese pound, as well as a fall-off in capital inflows.

The stability of the pound, which has appreciated 25 per cent since Rafiq Hariri took over as prime minister in October 1992, is a touchstone of confidence in Lebanon. The exchange rate has held, at what many local businessmen and bankers believe is an artificially high rate.

But between Mr Hariri's threatened resignation last December and actual resignation last month – only to be reappointed on May 25 – the central bank has had to spend approximately $800m of its $2.7bn reserves supporting the currency.

In the view of one leading Lebanese banker, "nothing has happened in the fundamentals over the past two and a half years to justify this appreciation" of the pound. "What we need is a strong pound, not an appreciating pound," he adds, pointing out a second distortion caused by the high interest rates needed to maintain the currency and Mr Hariri's credibility.

The highly dollarised Lebanese economy has begun switching into pounds, changing the resources base of the banking system. But this is at the same *time inhibiting lending*, with few projects viable at an average 30 per cent cost of funds. The overall deposit base, consequently, at about $12bn, far outstrips estimated GDP because investment channels are temporarily blocked.

In the medium-term, however, *the government hopes* the private sector will be attracted into high-return investments, in part replacing public sector outlays. In, for instance, six *planned* new enterprise zones, with tax holidays and customs exemptions on imported raw materials, and finished products taxed only if they are sold in Lebanon.

Such projects are intended to buttress the role Lebanon aspires to as a regional centre providing services and capital for a new Middle East on the verge of peace and starved of development funds.

In this vision, Lebanon will switch from its pre-war role as a banking centre recycling surplus petrodollars from the Gulf towards the west, and instead use its banking and entrepreneurial skills to channel funds from the west into the region.

Julian Ozanne on the Beirut Stock Exchange

Symptom of change

Nothing symbolises Lebanon's attempt to re-emerge as a regional financial centre more than the re-opening of the Beirut Stock Exchange, expected by the end of this year.

The bourse, closed since 1983 because of the civil war, is also critical to the country's reconstruction drive and to its efforts to attract private capital into productive investments for the economy, which is predicted to grow at an average of 8 per cent a year.

The government expects up to $20bn of private capital, largely held by Lebanese emigrants, to flow into the country within the next 10 years, underpinning the economic revival of Lebanon. But there is already no shortage of liquidity with an estimated $12.5bn – 140 per cent of gross domestic product – held by the banks in deposits. The stock exchange will quickly emerge as a leading alternative to investing in Treasury bills and property and as a source of long-term corporate finance.

Furthermore, with Lebanon's long history of financial liberalism – including currency convertibility, banking secrecy and unhindered capital movement – the bourse could also serve as part of a Lebanese capital market for other countries in the region.

With the advent of peace in the Middle East substantial capital will flow into the region to rebuild infrastructure and sustain economic liberalisation. Stock Exchange officials see the BSE becoming a conduit for foreign funds into countries such as Syria, which is undergoing a cautious economic reform programme that includes privatisation.

"We are in a hurry because the exchange must and will play a big role in reconstructing Lebanon and we want to be ready for peace in the region," says Gabriel Sehnaoui, president of the BSE committee.

But reconstructing the exchange has not been easy, given the few companies eligible to be listed. When the market was closed in 1983, 45 companies were traded, about two thirds actively. However, many of these traded companies were public utilities whose concessions have since expired and reverted to the government.

Another active sector was banking, but in 1983 a law was passed – largely to prevent Palestinians taking over the banks – making any share purchase subject to lengthy Central Bank approval. This law effectively prevents the banks coming to the market until it is reformed. Finally, most of the hotels and industrial companies once traded on the bourse have either been destroyed or taken over by a large group.

Not surprisingly, after 16 years of war the four companies still traded on the grey market and which have kept strict auditing procedures are in the cement, glass and construction materials sectors.

They, together with Solidere – the large private company rebuilding central Beirut, whose shares are currently being traded on the Beirut secondary market – will form the backbone of the blue chip market when the bourse re-opens. Plans are also under way to raise capital to rebuild the Phoenecia-Intercontinental and the Hilton, both also expected to join the market quickly.

Nabi Aoun, president of the Stockbrokers Association, says the market is unlikely to trade more than 14 companies by the end of 1996, including new issues. However, with a market capitalisation of up to $4bn the Beirut market would, from inception, be bigger than the stock markets of Egypt, Morocco and Tunisia and would be almost the size of Jordan's bourse. Lebanon would be expected to benefit from the growing interest in the emerging markets of the Arab world.

One of the advantages Lebanon has in reconstructing its market almost from scratch is its ability to introduce state-of-the-art computer technology and to establish regulations which meet international standards and favour foreign investment. Unlike many other Arab markets, Lebanon will allow foreign companies a trading seat at the exchange so long as they have a representative office in Lebanon.

Robert Fleming, Merrill Lynch, Banque Paribas, Indosuez and ING are among the foreign companies that have expressed an interest in trading. A French grant of FFr4.5m is financing work by the Paris Bourse to install the ultra-modern software that is shortly to go into service in Paris. The software is designed to guarantee investor confidence and international credibility.

French experts are also assisting Beirut's new clearing house, Midclear, which will clear and settle all accounts.

Mr Sehnaoui says investors will also be protected by a government commissioner regulating the market, a disciplinary and arbitration court, a market guarantee fund and new regulations to prevent money laundering. The fact that the bourse wants only corporate entities that have a strong capital base, and are governed by a code of ethics, to be licensed as brokers should also help.

A comprehensive capital markets law is under consideration and would establish an independent authority with overall responsibility for the organisation, regulation, supervision and control of markets, participants and securities.

From its outset the BSE will have three markets:

● The official market trading blue chip shares of companies with a minimum capital of $5m and three years of balance sheets which meet high standards of transparency and liquidity;

● The junior market for new companies with a minimum capital of $2m wishing finance for fast development or new projects;

● A higher risk unlisted securities market in which the BSE would create a trading environment but have no ultimate responsibility.

Companies that do not meet the transparency and reporting requirements of the official market would be able to list on the junior market. Within six months of opening, Mr Sehnaoui says, treasury bills will be traded on the BSE.

The government's efforts to re-open the exchange have been applauded by brokers. However, long-term growth in the market will depend on key policy reforms. First, and most urgent say brokers, is amending the 1983 law about buying shares in the banks. A current proposal before parliament would allow up to 25 per cent of equity in a bank to be freely traded on the market.

Second, brokers say the government must demonstrate commitment to privatisation of public utilities. Third, reform of property laws restricting foreign ownership must be undertaken to encourage foreign participation in publicly traded property companies.

Roula Khalaf examines the role of the banking sector

Facing the new order

As Lebanon pushes ahead with a reconstruction project worth more than $30bn, the country's banking sector, once a leading recycler of petrodollars, is racing to carve a role for itself in the new order.

Officials no longer speak of the resurrection of Lebanon as a regional banking centre – a role now jointly assumed by Dubai, Bahrain and Cyprus – but of the creation of a regional capital markets centre.

To adapt to the new vision, Lebanon's banks, rare survivors of 16 years of civil war, are facing many challenges. The depreciation of the Lebanese pound during the civil strife eroded the banks' capital base. In 1993, the central bank allowed banks to revalue assets if they put up a similar amount of cash into capital. The move proved highly effective and most banks now comply with the Basle Agreement's 8 per cent capital ratio.

But now that foreign banks such as ING, Citibank and Indosuez are trickling back into the market bringing with them capital, expertise, new technology and access to international markets, Lebanese banks need further infusions of capital. "If the banks want to participate in reconstruction, they have to increase their resources," says Francois Bassil, head of the Association of Lebanese Banks. "Competition will be fierce between the local and foreign banks."

But so far, raising funds has faced regulatory hurdles, with the central bank requiring prior approval of all new shareholders. A projected law is before parliament to allow 25 per cent of a bank's shares to be sold freely. This should let banks issue shares on the stock exchange, soon to be re-opened. Competition is also driving banks to diversify and they no longer rely solely on the system of strict secrecy and free exchange to attract funds.

The foreign banks coming into the market are not attracted by the prospect of retail banking – and are restricted to one branch by the *central bank – but rather by* the potential of channelling back some of the estimated $40bn in Lebanese capital outside the country, as well as attracting foreign funds.

Lebanon's banking sector – made up of 79 banks, with 565 branches and total assets of L£25,463bn – has traditionally seen little need to expand its services. The sector is highly profitable with a return on equity of 31.4 per cent versus 11.38 per cent for the world's first 100 banks.

But, due to stiff reserve requirements on Lebanese pound deposits, which make up about 35 per cent of total deposits, and high yields on Treasury-bills, these commercial banks *do little more than* take deposits and invest in T-bills. Although the banks can lend up to 60 per cent of their dollar deposits, they shy *away from assuming long-term* risk because the central bank cannot act as a lender of last resort on dollar deposits.

But with $12bn of deposits in the banking sector, and private investment needs of more than $20bn, the banking sector will have to play a larger intermediary role and channel investments for reconstruction. Furthermore, the inflow of capital into Lebanon in 1993 and 1994 – going mainly into property – has tapered off this year as property prices skyrocketed and much of Beirut's new luxury *buildings stand empty*.

"Banks two years ago saw no need to expand into capital markets or investment banking," says one banker. "But, with reconstruction, some banks are realising there is a need to expand, otherwise foreign banks will get all the business." *Banks such as Banque* du Liban et D'Outre Mer are setting up investment banking subsidiaries while others such as Banque Audi and Banque Saradar are working on corporate finance and equity deals for private sector clients.

According to the central bank, four investment banks have been licensed in the past year. "Beirut cannot go back to playing the role of a regional commercial banking centre," says Nasser Saidi, vice-governor at the central bank. "We need to attract capital and it is *hard to do it via banking*. We have to raise equity and debt and develop capital markets."

Among the new breed of bankers is Lebanon Invest, an investment bank started in 1994 with $26m in capital from Gulf and Lebanese shareholders. With the property market inflated, Lebanon Invest is attempting to channel international capital into other, more productive sectors of the economy, says Ziad Makkawi, head of trading, treasury and capital markets division.

Meanwhile, the central bank is also attempting to catch up. Mr Saidi says the central bank is in the process of defining what banking system the country wants. "We prefer that *banks have separate financial* subsidiaries to deal in investment banking," he says.

The government is unfazed by public impatience, says **Julian Ozanne**

Stoic in the face of critics

It can still take up to 45 minutes to get through to a telephone number in Beirut and often it's easier to dial London than two miles down the road. For at least eight hours a day the city's residents are without power from the national electricity grid. Roads are often jammed solid with traffic. And the water and sewage systems are literally bursting at the pipes.

Throughout the civil war the Lebanese found creative ways to deal with the destruction of their infrastructure. Most offices and apartment blocks installed diesel generators and the elite bought satellite telephones. An explosion of private radio stations and street hawkers made traffic jams slightly more bearable.

But with the war now over for four years, people are growing impatient with the government's promises to rebuild the country under its ambitious Horizon 2000 public investment programme being implemented by the Council for Reconstruction and Development.

The CDR, which plans to invest $31bn in reconstruction to the year 2007, says the impatience is unjustified. Work has begun on all the public utilities and multi-million dollar contracts have already been awarded to local and international firms.

The problem is that rehabilitation and reconstruction is a long and complex process – from design, to raising external capital, tendering and finally implementation. Furthermore, many of the projects such as electricity supply are like chains whose full effects will not be felt until the last link is in place.

Nevertheless, the CDR is confident that the Lebanese will begin to feel definite changes in public services by next year and that by the end of 1997 most of the horrendous problems will be resolved. In the meantime the council is *stoic* about public criticism.

"I believe that we are going very fast," said Fadal Chalak, former President of the CDR. "Of course people complain and it is their right to complain. Everybody deserves electricity and clean water and it is right to put pressure on us."

Privately, many CDR officials say criticism is being whipped up and exploited by politicians as a way of attacking the government of prime minister Rafik Hariri. Often, the council is treated as a political football in the parliament.

The latest criticisms concern the increasing power of the CDR, which acts like a super-ministry under the direct control of the prime minister. The decision in February by the minister of posts and telecommunications to transfer management of the rehabilitation of the telephone network to the CDR was a sign of the power of the council and demonstrated that it is one of the few government bodies adequately staffed with skilled professionals.

But Mr Chalak, who last month was appointed minister of posts and telecommunications, says the problem lies with the capacity of the ministries, which remain politicised, inefficient, understaffed and underpaid.

"We have the stomach of a mule and the skin of a crocodile," he says. "We have a national responsibility to provide the minimum level of infrastructure so that the private sector will invest – what moves any economy nowadays is the private sector."

The CDR is confident of raising the $31bn (in constant prices) it plans to spend to the year 2007, most of which will be spent on infrastructure investment. In the first years it plans to raise most of its capital needs from foreign borrowing in a mixture of commercial loans, foreign currency bonds, suppliers credits and bilateral agreements.

Already the CDR has raised $2.4bn, one third of its requirements for the period 1995-2000 and it dismisses critics who say increasing external debt will become unmanageable.

It also plans to rely increasingly on build-operate-transfer deals for projects such as toll roads, including the $700m Beirut-Damascus Highway, the cellular phone network and free trade enterprise zones.

Another unforeseen obstacle has been the difficulty in expropriating land for road building and for the extension of the airport. This has delayed several projects as land expropriations proceed slowly through the courts. Weak institutional capacity in the ministries and low standards among local construction companies have also produced delays. "If there is one thing we have learnt in four and a half years it is to have patience," says Mr Chalak.

But the CDR has made solid progress on providing the kind of environment needed to make Beirut once again an international or regional business capital. It stresses the advantage it has in rebuilding almost from scratch by being able to introduce the latest technology. In all, the CDR says more than 470 consultancy, construction and supply contracts have been signed since 1991 with a total value of about $2.4bn.

Areas tackled so far include:

● **Telephones:** Contracts worth $509m have been signed with France's Alcatel, Sweden's Ericsson and Siemens of Germany to supply new digital exchanges and to extend the transmission network, including installing high capacity fibre optic cables and two satellite earth stations.

The plan entails increasing working lines from 300,000 in 1993 to 1.2m by the end of 1996, although the CDR expects a noticeable improvement in service later this year.

The government has also licensed two international-Lebanese joint ventures to run a mobile cellular digital GSM system on a build-operate-transfer basis. Each company has a 10-year concession at the end of which they revert to government.

Service has begun but demand has so far outstripped supply for the estimated 60,000 lines and the system has been overloaded. The companies expect to make improvements to get the service running properly by August and double the capacity by the end of the year.

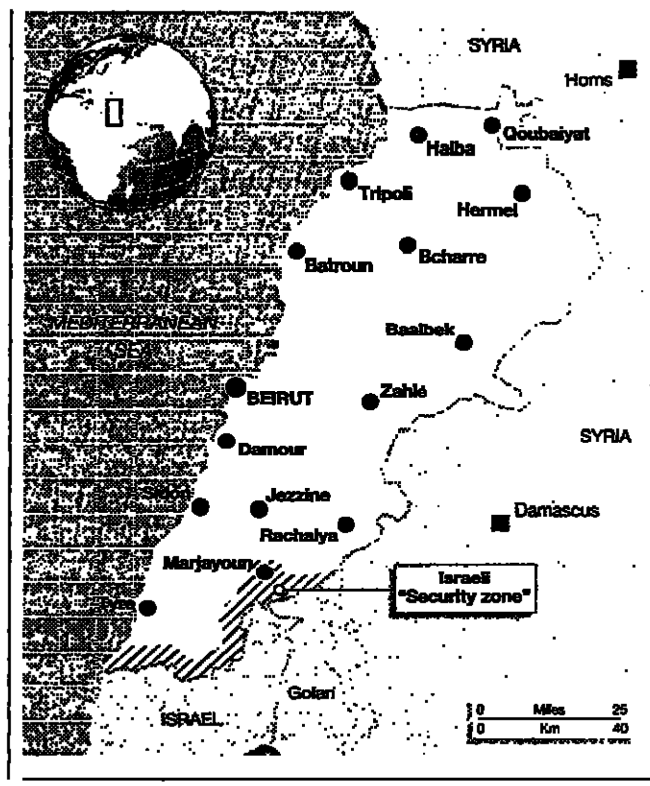
● **Electricity:** In January the government signed a $536m contract with the Italian Ansaldo Energia company and Germany's Siemens to build two new 435mw combined-cycle plants, one at Zahrani in the south and the other at Baddawi in the north. The two plants will have a capacity of 290mw within 18 months from the beginning of construction, 580mw within 30 months and the full 870mw by 1997, adding to an expected 1,100mw after rehabilitation of existing capacity.

Rehabilitation of existing power stations and the electrical distribution system should be completed within months and the government is confident of an end to power rationing by the middle of 1996.

● **Transport:** Germany's Hochtief, in a joint venture with the Athens-based Consolidated Contractors Company, has started a $387m expansion contract at Beirut airport, including rehabilitation and expansion of the decimated terminal, rehabilitation of the east runway and the construction of a new west runway over the sea due to be completed in late 1998. The CDR says the capacity of the airport will be 6m passengers a year by the end of the century compared with traffic of 1.4m last year.

Work has begun on the development of Beirut port, including the construction of a power station, a quay and roads and the upgrading of the port's infrastructure.

Work is also under way on the repairing of the water and sewerage network and the rebuilding, and developing of 1,262 schools, hospitals and health clinics and government buildings across the country.



Roula Khalaf assesses the controversial plan to rebuild the centre of Beirut

Opposition still finds a voice

In Beirut's war-ravaged town centre, once the heart of the capital, faint signs of life are re-emerging. The destruction has been largely erased by wide-scale demolition. Workers hired by Solidere, the Lebanese Company for the Reconstruction of Beirut Central District, have begun renovating a handful of buildings and laying the foundations for roads and sewerage systems.

The creation of a private sector firm – at a time when public funds were scarce – to rebuild the heart of Beirut was shrouded in controversy when it first emerged. The plan – the idea of prime minister Rafiq Hariri, long before he took up the helm of the government – came to life in 1991 when parliament passed a law effectively forcing landowners and tenants to give up their rights to the land in return for shares in a public company.

Central Beirut covers more than 100 hectares and 1,630 property lots. More than 100,000 people have rights in the area as Lebanese law gives tenants the first right of return once a space is rebuilt.

The company formed – Solidere – raised $650m in an over-subscribed public offering in 1993 to pay for infrastructure and the development of some lots and to resell others. Landowners protested and Solidere's public issue turned into a political dispute. Even the pro-Iranian Hizbollah issued a *fatwa* – or religious edict – against the purchase of shares.

The voices of opposition to Solidere have not completely died down. Questions are often raised about the viability of the project. War has not only disfigured the city but it has also changed its configuration. New areas from Jounieh, north of Beirut, to the southern suburbs have emerged as commercial centres.

Whether stores and businesses will move or open a second branch in the centre once Solidere rebuilds remains to be seen.

The company is counting on the latter. Its plans extend over 160 hectares, including 60 hectares of reclaimed land on the sea front. The area comprises 75 hectares of land for development and 85 hectares of public spaces, roads and religious and government properties.

The most recent plans envisage 1.9m square metres of residential space and 1.5m square metres of office space. The company is planning two marinas, one of which will house 750 boats. Inhabitants are expected to number 45,000, with another 110,000 employees and 150,000 visitors.

Officials at Solidere say the plans are realistic. They insist the company can adapt to changes

Mr Hariri's vision to bring back Lebanon's former glory as a regional centre is at the heart of the project and its success or failure will be Mr Hariri's legacy.

Officials at Solidere say the plans are realistic. They insist the company can adapt to changes in the country and to demand. Solidere, which has a company life of 25 years, says the area can be rebuilt in 15. It maintains that plans can be adapted if less than the projected amount of office or residential space is needed.

"We can study demand around us and adapt every year," says Pierre Edde, a project manager. "Before the war, Beirut was the only magnet in the Middle East," says Nouhad Makdissi, manager of financial evaluation and reporting. "There is now room for more than one magnet and we will be one of them."

To architectural critics, Solidere says it is demolishing 642 buildings and restoring 265. Surviving buildings can be recuperated by owners willing to pay 10 per cent of the appraised value of the buildings, buy out other owners of the building and restore the structures in accordance with Solidere's urban planning.

A $475m contract with the state to rebuild the infrastructure means Solidere can finally start work. Payment is in the form of reclaimed land on the sea front.

The $63.7m contract for the first phase of the infrastructure work was awarded to the Lebanese-Italian joint venture, Klat and Maouad and Consorzio Co-operative Costruzioni. This phase – including the building of primary and secondary road networks, sewerage, water drainage, tunnels and civil works for electricity and communications networks – is expected to be completed in three years.

Work has begun on the reclaimed area – which accounts for a third of Solidere's total surface – to treat the 20-metre-high dump of waste and debris and to create sea front protection. The reclaimed area project is the most expensive for Solidere, likely to cost about $300m.

The rest of the $650m funds raised in the public offering will go into recreating the traditional souks, restoring buildings and finalising the infrastructure works.

Solidere is already selling land to other developers. The company says it is in discussion with two groups to build a 200-room hotel and is being approached by foreign companies wishing to reopen regional offices in central Beirut.

Although rebuilding of the centre has started, Solidere has yet to hand out all the shares in the company to shareholders who were landowners or former tenants. The company was capitalised at $1.8bn, $650m of which represents B shares issued in the public offering. The rest, constituting 11.9m A shares, is being divided between tenants and landowners. About 3m of these shares represent properties that can be recuperated.

Out of the 8m shares remaining, however, only 3m have so far been distributed. (Each distribution goes through an appeal process by which tenants and landowners argue over their stakes.)

The process is a difficult one. One property, for example, had 4,080 owners and 780 tenants, all with rights to shares in Solidere. The share distribution process should take another 12-18 months to complete.

Investors in Solidere, meanwhile, have seen their shares languish after an initial boost. Issued at $100 in the 1993 public offering, the shares reached a price of $173, stabilised about $150-$155 and now trade about $130.

The public offering was aimed solely at Lebanese and other Arab investors. Foreign investors who find the Solidere risk attractive can buy into warrants on the stock issued by Paribas and Indosuez. Paribas received the shares it uses to issue warrants because it had property rights in the central district. Indosuez's Beirut subsidiary, meanwhile, is an eligible shareholder in Solidere.

Lasting regional peace is crucial to the rebirth of a market economy, says **David Gardner**

A chance to breathe again

The resumption of peace talks between Israel and Syria, due this month, was nowhere received with greater welcome than in Lebanon, which over the past 20 years has had its destiny shaped by these two powerful neighbours fighting out their battles on Lebanese soil.

A successful Syrian-Israeli accord would enable Lebanon to reclaim the Israeli-occupied "security zone" amounting to nearly 10 per cent of its southern territory, and would make it harder for Syria to justify keeping 35,000 troops stationed inside Lebanon. For the first time since civil war broke out in 1975, Lebanon would get a chance to breathe.

The violent particularisms of Lebanon's 17 communities have always tempted regional and outside forces to use the country as a proxy battleground by fanning the ambitions of their local allies, and never with more devastating effects than in the 1975-90 civil war.

In 1976, Syria waded in to prevent the Maronite Christians being defeated by an alliance of the Palestine Liberation Organisation (PLO) and the predominantly Moslem Lebanese Left. Damascus has held most of the Lebanese ring ever since.

In 1982, Israel launched its deepest and most adventurist invasion into Lebanon. The PLO was forced out of Lebanon, but by 1985, under attrition from Shi'ite Moslem militias, Israel withdrew to the "security zone", where it operates on the ground primarily through its client South Lebanese Army (SLA) militia.

Under the 1989 Taif agreement to end the civil war, Syria, which entered Lebanon under the cover of an Arab League mandate, should by now have withdrawn its troops to the Bekaa valley, adjoining its border.

Equally, under UN Security Council resolution 425, passed in response to an earlier Israeli invasion of Lebanon, Israel should have pulled out and restored the "security zone" to Lebanon's still somewhat notional sovereignty. None of this has happened.

In spite of some 15 meetings with Israel since the 1991 Madrid peace talks on the Middle East, Lebanon by itself has got no closer to detente with its southern neighbour. Israel has been seeking a separate peace with Lebanon for the past 15 years, but even if it wished to, the Lebanese government is in no position to break ranks with Syria.

The government regards Israeli compliance with UN SCR 425 as the indispensable prelude to any peace overtures. Israel demands that Beirut demonstrate its ability to guarantee security in the south by closing down Hizbollah, the Shi'ite fundamentalist militia.

Hizbollah, created after Israel's 1982 invasion, with Iranian backing and Syrian blessing, unleashed a new offensive against the Israeli occupation this year, following the breakdown in Syrian-Israeli negotiations last December. The Beirut government, with Syrian support, has disarmed all the civil war militias except Hizbollah, which has acquired the prestige of a national resistance movement, endorsed by the government, and enjoying a degree of cross-confessional sympathy.

Fares Bouez, the Lebanese foreign minister, complains of Israel that "they are asking us to have a confrontation with the resistance at a time when we have no guarantees we'll get the land back. We need a guarantee to show to these people when we tell them to stop".

Israel assumes, realistically, that only Damascus is in a position to tell Hizbollah when to stop. Mr Bouez himself says "we know we'll never get [compliance with UN security council resolution] 425 before they [Israel] reach an agreement with the Syrians".

Israel needs to reach terms with Syria to ensure that the Hizbollah onslaught on its northern border stops. But Lebanon too, even though it has reconstructed a 53,000-strong national army, partly absorbed from the disbanded civil war militias, needs Syria to rein in Hizbollah if peace arrives.

"We still have an interest in having the Syrians dealing with Hizbollah because of their relationship with them," says Mr Bouez, who asserts in the next breath that "the day a [peace] agreement is reached" involving all three countries, "there will be no justification for anybody but the Lebanese army to maintain order in this country".

There is little question that Lebanon will remain in the Syrian orbit for some time to come, but the extent to which Syria is coming to depend on Lebanon should not be underestimated.

For Syria, too, is in transition. Its strategic choice of peace is in part dictated by its imperative need to overhaul and open up its failing command economy, which no longer has the external prop of the ex-Soviet Union.

In this, it will need not only a "peace dividend" of financial aid from the US, but the window to the world and the markets that are provided by Lebanon.

"We are under Syrian domination, but that's not the whole truth. The future of Syria is linked to what is happening in Lebanon," says Samir Franjeih, political adviser to Rafiq Hariri, the Lebanese prime minister.

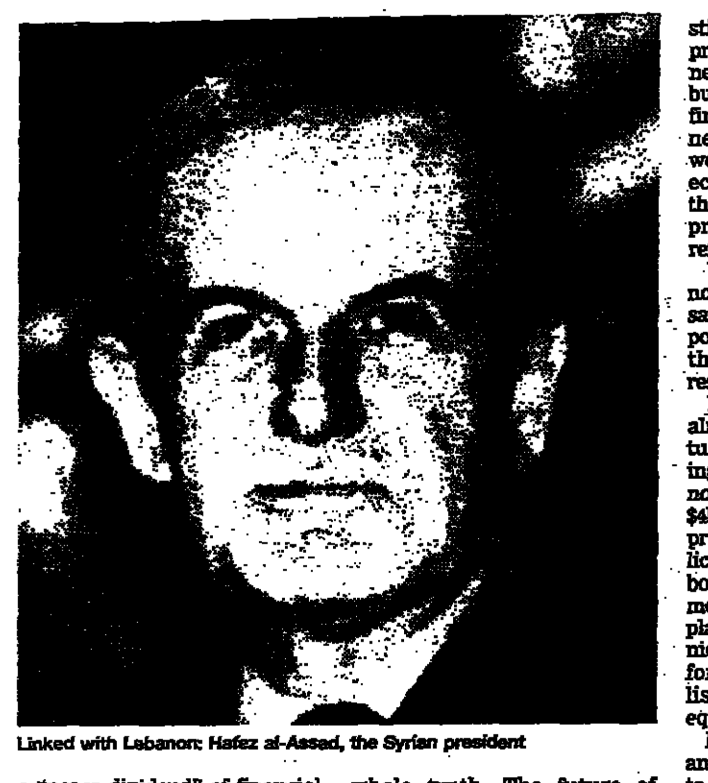
A resurgent Beirut – reconstituted not so much as the pre-war banking centre channeling Arab funds to the west, but as a capital market and financial services centre channelling funds into an Arab world concerned more with its economic development than the struggle with Israel – could prove decisive for Syrian reform.

Nasser Saidi, deputy governor of the Bank of Lebanon, says: "Beirut could be uniquely poised to play that role and be the provider of financial resources."

Lebanese companies are already setting up joint ventures in Syria, which, according to Bank of Lebanon governor Riad Salame, has drawn in $4bn since it started allowing private investment in its public sector. And once the Beirut bourse opens in the next few months it will be the natural place for Syria to float companies it wishes to privatise, and for Syrian companies to be listed and issue debt and equity.

But peace, allowing Lebanon and its natural entrepreneurs to live in symbiosis with its neighbours, is the key.

"We can just see the start of a movement towards a market economy" in Syria, says Mr Salame, "but peace would greatly accelerate that".



Linked with Lebanon: Hafez al-Assad, the Syrian president

Reversing Lebanon's brain drain

Potential source of strength

Four years after the end of the war, and with the prospect of a lasting peace emerging, Lebanon, led by prime minister Rafiq Hariri, has great ambitions for its revival. Rebuilding, however, will require more than clearing out the rubble, erecting high-rise buildings and designing offices, while creating a financial market will take more than establishing regulations for a stock exchange, a bond market and a securities watchdog. What is most needed is people.

Statistics on Lebanese migration vary. During the 16 years of civil war, between 800,000 and 1m Lebanese left the country, according to the Lebanese ministry of emigration.

Kamal Hamdan, an economist at the independent Consultation & Research Institute, estimates that between 1975 and 1990, the net balance of migration was about 550,000 people, 40 per cent of whom were considered among the active population, who sought work mainly in Gulf countries. Many others were students, who went to pursue their studies in Europe and the US.

Reda Wahid, the former minister of emigration does not believe that the Lebanese are returning. "Those who find jobs outside stay," he says. "You need to look at this situation psychologically. Can one leave a job with its benefits and security and come here? No one is coming back – only those who left with their children, they come back but the children don't."

The end of the war has brought security but peace has yet to translate into economic benefits and create an attractive environment for the Lebanese expatriate community. Years of hyperinflation and static wages have eroded the middle class's purchasing power. Average monthly salaries in Lebanese banks do not exceed $500, at a time when rent in a decent three-bedroom family dwelling in the capital city can cost up to $1,500 a month.

Returning Lebanese professionals therefore work for a family business, have sufficient capital to start up on their own or are sent by foreign banks re-opening their offices in Beirut and thus paid London or New York salaries.

The return of foreign banks, however, is forcing their Lebanese counterparts to increase their own salaries in order to attract talent from outside. Most professional employees at Lebanon Invest, a one-year old investment bank, were hired away from investment banks in Europe and the US.

Solidere, the company for the reconstruction of the downtown Beirut district is also contributing to the raising of salary levels by paying an estimated $2,000 a month to MBA graduates from western universities who have a few years of experience.

"The brain drain will be a major source of strength," says Abdul Hafiz Mansour, deputy general manager at Solidere. "Once there is the prospect of work, they will come back."

But as Lebanon's private sector attempts to lure back the diaspora, some Lebanese are still leaving the country, some in search of a more prosperous life. Others – Christians in particular – leave because they feel they have lost out during the war.

"People want to leave but not many can because of the economic crisis in the Gulf," says Mr Hamdan. "But if there is no process to rebuild the middle class, socially and economically, people will not come back, especially not the Christians."

Roula Khalaf

Julian Ozanne looks at the country's huge public debt undertaking

Ambitious but feasible

At the heart of Lebanon's reconstruction programme is a massive public debt undertaking which aims to raise about $31bn over the next 13 years to finance rehabilitation of infrastructure and to meet budget deficits.

In the face of mounting criticism about mortgaging Lebanon's future and incurring burdensome indebtedness the government has designed a debt strategy for the 1995-2007 period which it argues is manageable and in line with the indebtedness of countries such as Jordan and Belgium.

Of the $31bn (in constant prices) the government plans to raise for the reconstruction programme known as Horizon 2000, $22.2bn is earmarked for public investment expenditures and $8.8bn is to meet debt repayment obligations and current budget deficits until 1999.

The strategy assumes that the budget deficit will be balanced by 1999 as a result of strict fiscal discipline and a growing revenue base and that budget surpluses from the year 2000 will become the main source of financing public investment as well as servicing debt. The government projects budget surpluses before investment will increase to more than 8 per cent of gross domestic product by 2007 and will provide $12.1bn, 69 per cent of the $17.6bn of finance needed for the period 2001-2007.

In the meantime, and to prevent crowding out the domestic private sector, the government will heavily rely on foreign borrowing raising about 61 per cent or $8.2bn of the $13.4bn needed between 1995-2000 on international capital markets.

Following last year's highly successful $400m Eurobond issue the government intends to raise a further $2.2bn in foreign currency bonds in the next 12 years. Parliament has already authorised the government to issue $968m of foreign currency bonds, including last year's Eurobonds, to finance rebuilding the Beirut suburbs and railway system, to fund the return of up to 600,000 people displaced by the civil war and Israel's occupation of part of Southern Lebanon and to expand the electricity network.

So far the government has raised $2.4bn of foreign finance (excluding $300m spent before 1995), one third of its requirements for the period 1995-2000 and has a further $400m under negotiation. Among the sources of finance so far are the World Bank, European Investment Bank, the Kuwaiti Fund, the Arab Fund and the Italian government.

Nohad Barroudi, general secretary of the Council for Development and Reconstruction, the super-ministry implementing the reconstruction programme, says that another advantage of foreign borrowing is that the government can secure better terms than in the local market.

The combined average terms of foreign debt to date, he says, are favourable with a nominal interest rate of 6.7 per cent a year, 16 years maturity including 4.8 years grace on capital repayments. The government had assumed less favourable terms for Horizon 2000 of 7 per cent annual interest and 14 years maturity including four years' grace.

Total domestic and foreign debt will peak in 2003 or 2004 at about $30bn. But assuming GDP growth of 8 per cent a year, Mr Barroudi says total debt stock as a percentage of GDP will peak in 1999 at 91 per cent and fall to 42 per cent of GDP by the year 2007. Foreign debt stock as a percentage of GDP will reach a maximum of 42 per cent in 2000 falling progressively to 13 per cent in 2007. Debt service as a percentage of GDP will never be higher than 10 per cent and will fall to 6 per cent in 2007.

The CDR says private investment during the period 1995-2007 is expected to reach $42bn.

Economists say the debt strategy is ambitious but feasible providing the assumptions turn out to be true: an 8 per cent growth rate per year and success on the fiscal front.

Debt (US$bn current prices)

	1995-2000	2001-2007	1995-2007
Foreign capital grants	0.3 (2%)	–	0.3 (1%)
Foreign borrowing	8.2 (61%)	3.0 (17%)	11.2 (36%)
Domestic borrowing	4.7 (35%)	2.5 (14%)	7.2 (23%)
Current budget surpluses	0.2 (2%)	12.1 (69%)	12.3 (40%)
Total	13.4 (100%)	17.6 (100%)	31.0 (100%)

Source: Council for Development and Reconstruction

Lebanon in brief: key facts

Population and area

Population: 2.84m (1992 UN estimate)

Land area (sq km): 10,452

Capital and main cities

Population in 000s (1991)

Beirut	1,500
Tripoli	200
Zahle	30
Sidon	100
Tyre	70

Economics

GDP growth of 8-8.5 per cent is forecast for 1995 and 1996. The annual inflation rate, which reached more than 100 per cent in Lebanese pound terms in 1992, has been restricted by the imposition of high interest rates and stabilisation of the currency, which actually appreciated by 3.7 per cent against the US dollar during 1994.

Banque Audi's latest estimate puts inflation in 1994 at 12.05 per cent in pound terms and 16.37 per cent in dollar terms.

Discount rates have fallen from their 1992-93 peak of 24-37 per cent to 13.6 per cent in the first quarter of 1995, while Treasury bill rates have remained about 16-18 per cent for the past two years.

Exports remain weak, representing less than 15 per cent of GDP. The General Directorate of Industry gives a figure of $379m for the whole of 1994. The IMF's Direction of Trade Statistics gives a figure for the first three quarters of 1994 of about $530m, which would indicate a 12-month total of some $750m.

Banque Audi estimates, meanwhile, point to a 1994 total of $1.16bn. This compares with a World Bank figure of $1.13bn in 1993.

Imports, according to Banque Audi's estimate, based on customs dues collected, were $5.80bn in 1994, an increase of nearly 19 per cent over 1993. The trade deficit in 1994 consequently appears to have totalled $4.64bn and is likely to be higher still in 1995.

Currency

Currency: Lebanese pound
£1=L£2609.39; $1=L£1630.00; DM1=L£1188.83; Y100=L£1936.79

The Lebanese pound is a freely convertible currency. In April 1973 "mobile temporary parity" for the pound in relation to the dollar and other currencies was adopted for calculating taxes and other fees linked to foreign currencies. This was the average base rate on the Beirut money market during the previous calendar month.

On June 1, 1976, the pound fell to its lowest level in five years (L£3.10:$1), dipped still further in 1977, but showed surprising resilience before reaching L£5.26:$1 in November 1983.

In 1984 the currency fell sharply and the slide has continued ever since. In September 1990 the rate had fallen to L£1,200:$1 as a result of the onset of the Gulf crisis, and then in February 1992 the central bank ceased its currency support operations and the value of the pound again had fallen dramatically.

By early May the rate had fallen through the L£2,000:$1 barrier.

The currency rallied in late 1992, however, after the appointment of the Hariri cabinet, and has steadily appreciated, reaching the L£1,695:$1 mark at the end of the first quarter of 1994.

Languages

Arabic, English and French are widely spoken.

Ethnic make-up

The Lebanese belong to a single ethnic grouping, Levanto Arab, which encompasses the people of the Levant coast from northern Syria to southern Palestine. Also settled in Lebanon are small numbers of people from different ethnic stock, notably Armenians and Kurds, the latter being stateless. No full census has been attempted since 1932.

Entry/visa requirements

All visitors must be in possession of passports except certain nationals of neighbouring states. Visas are required for all, with isolated exceptions. Entry is prohibited to Israeli nationals.

Banking and business hours

Government offices: summer: 0800-1300, Monday-Saturday; winter: 0800-1400, Monday-Saturday;
Business houses: summer: 0800-1300, Monday-Saturday; winter: 0830-1300 and 1500-1800, Monday-Friday
Banks: 0830-1400, Monday-Friday. 0830-1400, Saturday.

Lebanon Towards 2000

Today sees the opening of the Lebanon Towards 2000 exhibition by Rafik Hairi, the Lebanese prime minister.

The exhibition, which is taking place at the Rashid Kamari Lebanon International Fairgrounds, Tripoli, will run until June 10.

Sources: EIU country profile 1994-95; Walden Country Reports; FT World Hotel Directory